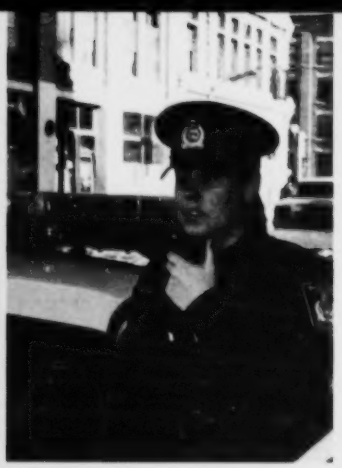
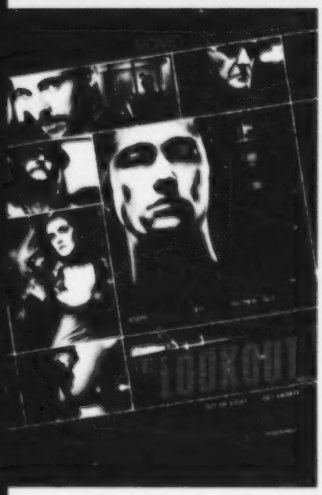
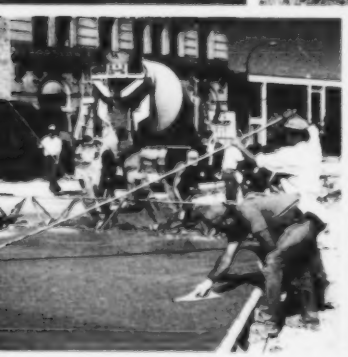


Winnipeg

THE CITY OF WINNIPEG 2006 ANNUAL FINANCIAL REPORT



Above l-r: Downtown Winnipeg at night. Photo: Travel Manitoba. Manitoba Hydro energy efficient headquarters under construction Downtown. Photo: Mario Palumbo / Manitoba Hydro. Downtown's CITYPLACE reflected in a window. Photo: Destination Winnipeg Inc. / Ray Henry. Solar powered parking pay station. Photo: City of Winnipeg. Motorcycle police patrol the Exchange. Photo: City of Winnipeg. Produced by Spyglass Entertainment and Miramax Films, the movie *The Lookout* was shot in Winnipeg. New condo on Waterfront Drive. Photo: CentreVenture Development Corporation. City recreation programs benefit youth. Photo: City of Winnipeg. Famous Boy with the Boot greets visitors to the English Gardens. Photo: City of Winnipeg. Frequent pruning keeps city trees in shape. Photo: City of Winnipeg. The Pavilion at Assiniboine Park. Photo: City of Winnipeg. Winnipeg is a three time winner of a Communities in Bloom award. Photo: City of Winnipeg. Heading out for a skate. Photo: Dave Reede Photography. Downtown's MTS Centre - one of North America's busiest entertainment venues. Photo: Travel Manitoba / Mike Grandmaison. Winnipeg hosted the CFL championship Grey Cup Game in 2006. Photo: Dave Barichuk. The scenic Assiniboine River Walk is maintained by city crews. Photo: City of Winnipeg. A pair of cheetah prowl the zoo. Photo: City of Winnipeg. Winnipeg speedskater Cindy Klassen won five medals at the 2006 Winter Olympics. Photo: Mike Ridewood. Recreational fishing on the river. Photo: Destination Winnipeg Inc. / Dodgie Dator. Over $284 million will be spent on roads and bridges over the next six years. Photo: City of Winnipeg. CanWest Global Park, home of the Winnipeg Goldeyes. Photo: courtesy Winnipeg Goldeyes.



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THE CITY OF WINNIPEG 2006 ANNUAL FINANCIAL REPORT

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MESSAGE FROM THE MAYOR

"...we are reinvesting in "frontline" services, while reducing the cost of internal services."

"Good things sometimes take time" – and improving Winnipeg's financial outlook took a great deal of time: tightening our fiscal priorities, transforming our approach to budgeting, and improving our financial reporting.

Winnipeg has slashed its tax-supported debt, thanks to the foresight of Councillors in the 1990s. And since 2004, Winnipeg's relationship with the provincial and federal governments has improved dramatically. Both governments are now strong, long-term funding partners. These two changes alone have had a substantial impact on our financial health.

But we have also achieved much in a matter of months, thanks to the leadership of Finance Chair Mike O'Shaughnessy, Chief Administrative Officer Annitta Stenning, and our budget team, amongst others. For the first time in memory, Winnipeg is turning the corner on our 'infrastructure deficit.' Our police force is much larger and better equipped. Finally, we are reinvesting in "frontline" services, while reducing the cost of internal services.

In 2006, we froze property and business taxes, and simplified the entertainment tax. In 2007, Council approved the operating budget unanimously for the first time in 21 years, cutting business taxes and freezing property taxes once again. 2007 was the tenth consecutive year of property tax freezes or cuts in Winnipeg. The 2007 budget was also more transparent, with a new service-based budget process and new policies designed to exceed the best practice for reporting of public-private partnerships.

Whether you are a Winnipegger, or one of our neighbours, let us congratulate Council, the Administration and our Government partners for the role each played in this success. We still face challenges: rising utility costs and capital cost inflation are just two important concerns. But recent experience has changed our outlook from "determined" to "cautiously optimistic" – and I hope you can join me in sharing in that optimism.

Sam Katz

Sam Katz, Mayor of the City of Winnipeg

2006 - 2010

12TH AND CURRENT COUNCIL
OF THE CITY OF WINNIPEG
MEMBERS AND APPOINTMENTS

Mayor Sam Katz

Jeff Browaty, North Kildonan Ward (until October 25, 2006)
Chairperson, Mayor's Environmental Advisory Committee

Bill Clement, Charleswood – Tuxedo Ward
Chairperson, Standing Policy Committee on Infrastructure Renewal and Public Works

Scott Fielding, St. James – Brooklands Ward (until October 25, 2006)
Chairperson, Mayor's Economic Opportunity Commission
(commencing December 14, 2006)

Jenny Gerbasi, Fort Rouge – East Fort Garry Ward

Harry Lazarenko, Mynarski Ward
Speaker
Chairperson, Riverbank Management Committee

Brenda Leipsic, River Heights – Fort Garry Ward (until October 25, 2006)
Deputy Mayor (commencing November 7, 2006)

Grant Nordman, St. Charles Ward (until October 25, 2006)

Mike O'Shaughnessy, Old Kildonan Ward
Chairperson, Standing Policy Committee on Finance
(formerly Standing Committee on Fiscal Issues)

Mike Pagtakhan, Point Douglas Ward
Deputy Speaker (commencing November 7, 2006)
Chairperson, Winnipeg Housing Steering Committee (commencing November 7, 2006)
Youth Ambassador

Harvey Smith, Daniel McIntyre Ward

Gord Steeves, St. Vital Ward
Acting Deputy Mayor
Chairperson, Standing Policy Committee on Protection and Community Services

Justin Swandel, St. Norbert Ward
Chairperson, Alternate Service Delivery Committee
Chairperson, Standing Policy Committee on Property and Development
(commencing November 7, 2006)

Lillian Thomas, Elmwood – East Kildonan Ward

Daniel Vandal, St. Boniface Ward (until October 25, 2006)
Secretary of Urban Aboriginal Opportunities (commencing November 7, 2006)

Russ Wyatt, Transcona Ward
Chairperson, Rapid Transit Review Task Force
Chairperson, Standing Policy Committee on Downtown Development
(commencing November 7, 2006)
Chairperson, Red Tape Commission Implementation Committee

2002 – 2006

11TH COUNCIL
OF THE CITY OF WINNIPEG
MEMBERS AND APPOINTMENTS

Mayor Sam Katz

Donald Benham, River Heights – Fort Garry Ward

Bill Clement, Charleswood – Tuxedo Ward
Chairperson, Standing Policy Committee on Infrastructure Renewal and Public Works

Peter De Smedt, St. Charles Ward
Chairperson, Standing Policy Committee on Property and Development

Jae Eadie, St. James – Brooklands Ward
Speaker

Jenny Gerbasi, Fort Rouge – East Fort Garry Ward

Harry Lazarenko, Mynarski Ward
Deputy Speaker
Chairperson, Riverbank Management Committee

Mark Lubosch, North Kildonan Ward
Secretary of Urban Environmental Strategies

Franco Magnifico, St. Boniface Ward
Chairperson, Standing Policy Committee on Downtown Development
Chairperson, Red Tape Commission
Chairperson, Kansas City Economic Partnership Committee

Mike O'Shaughnessy, Old Kildonan Ward
Deputy Speaker
Chairperson, Standing Committee on Fiscal Issues

Mike Pagtakhan, Point Douglas Ward
Deputy Mayor
Secretary of Urban Aboriginal Opportunities
Youth Ambassador

Harvey Smith, Daniel McIntyre Ward

Gord Steeves, St. Vital Ward
Acting Deputy Mayor
Chairperson, Standing Policy Committee on Protection and Community Services

Justin Swandel, St. Norbert Ward
Chairperson, Alternate Service Delivery Committee

Lillian Thomas, Elmwood – East Kildonan Ward

Russ Wyatt, Transcona Ward
Chairperson, Rapid Transit Review Task Force

MESSAGE FROM THE CHIEF ADMINISTRATIVE OFFICER

"Our services touch every citizen, every day, in one way or another; our goal is to ensure that each one of these encounters makes a contribution to our citizens' quality of life."

I am pleased to present The City of Winnipeg's Annual Financial Report for 2006. Throughout the year, City staff worked with energy and determination to advance Council's agenda. As a team, we are passionate about the trust that City Council and Winnipeg's citizens have placed in us – we know fulfilling that trust means making the most of every opportunity for business and service improvement.

Improving service affordability and organizational accountability are at the heart of our commitment to Council and citizens. In 2006, City Council adopted the ninth consecutive Operating Budget without a property tax increase; the budget continued the reduced business tax rate of 7.75% for all downtown businesses, provided a plan to partially offset business tax increases resulting from the 2006 general assessment, maintained essential frontline services, and increased funding for public safety. The 2006 Capital Budget continued the City's successful pay-as-you-go financing strategy, while committing $1.4 billion to infrastructure investment over six years.

In order to support Council's vision of a more affordable City, we are engaged in an ongoing effort to identify business improvements, find efficiencies, and reduce costs. To name just a few examples from 2006, in the last fiscal year we found approximately $3 million in savings from management salaries, reduced consulting costs by 10%, deferred computer replacements, and made reductions to corporate accounts. We continued to identify efficiencies through automation, particularly in areas like payroll and accounting systems.

Credit rating agencies continue to respond positively to Winnipeg's prudent fiscal management. In 2006, Standard & Poor's reaffirmed the City's AA credit rating, and Moody's Investors Service upgraded the City's rating from Aa2 to Aa1. Moody's December 2006 analysis of Winnipeg's fiscal position observes, "The City of Winnipeg (Aa1, stable) continues to reap the benefits of a redesigned fiscal plan. . . . Several years without tax increases have resulted in a more competitive position vis-à-vis neighbouring jurisdictions and strong fiscal discipline continues to ensure that expenditure growth remains limited."

Moody's analysis also notes that the City's multi-year budget process "allows the City to identify challenges before they arise and develop appropriate strategies." In 2006, the final installment of the City's 2004-2006 budget was approved, a budget which, in 2004, received the Government Finance Officers' Association Distinguished Budget Presentation Award. As the year progressed, staff worked to further strengthen the budget process, acting on Council's October 2005 direction to prepare a Service-

Based Budgeting Report. In keeping with this direction, the 2007 Preliminary Operating Budget was prepared in service-based format, and is available on the City's website.

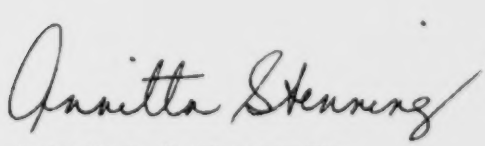
We are constantly striving to offer the best possible service to assist our Mayor and Council in realizing their goals - their fiscal determination, and their commitment to policy innovation. In 2006, we worked on a wide array of priority initiatives that reflect that commitment to better service for citizens – from continuing implementation of the recommendations issued by the Mayor's Red Tape Commission, to the development of the CrimeStat system for gathering, analyzing, and distributing crime data; from researching challenges, opportunities, and possible models for a 311 customer service model, to exploring possibilities for private-public partnerships in our capital projects. We feel fortunate to be part of a dynamic organization, where we have the opportunity to take part in positive change.

As we work to strengthen financial discipline, and to support Council's policy innovation, we are always aware of the significant part our ongoing services play in the lives of Winnipeggers. Our services touch every citizen, every day, in one way or another; our goal is to ensure that each one of these encounters makes a contribution to our citizens' quality of life.

That quality of life is improved through many neighbourhood projects. In 2006, the Red River Community Centre redevelopment was completed, and the Centre opened to the public. We finalized plans to relocate the West End Library to the newly-named Cindy Klassen Recreation Complex, with improved service and programs. We beautified Waterfront Drive, and completed the Waverley West neighbourhood plans.

We helped Winnipeggers make our City cleaner - 86% of households recycle, now - and we helped keep our City moving, completing the Redwood Bridge, Maryland Bridge, and Kenaston Underpass projects. We are implementing Council's comprehensive strategy to improve Winnipeg Transit. And, we are doing our best to help make this a safer city; we introduced a re-engineered Computer Aided Dispatch System for Fire and Emergency Medical Services, and, with the ongoing support of the Province, we established the Winnipeg Police Service's Street Crime Unit as a permanent addition to our crime-fighting resources.

In everything we do, the Council and citizens we serve are uppermost in our minds. We are proud to play our part in effecting change that matters. We are proud to maintain a high standard of quality, providing services that count. Most of all, we are proud to be public servants – and we look forward to helping build on the progress our community has made in 2006.



Annitta L. Stenning, Chief Administrative Officer

2006 SENIOR ADMINISTRATORS

Annitta L. Stenning, Chief Administrative Officer

Michael Ruta | Jo-Anne Ferrier,
Acting Chief Financial Officers (April – December 2006)

Cliff Jeffers, Chief Information Officer
Acting Chief of Human Resources and Corporate Services

Jack Ewatski, Chief, Winnipeg Police Service

Harry Finnigan,
Director, Planning, Property and Development

Nelson Karpa, City Assessor (effective November 24, 2006)

Bill Larkin, Director, Public Works

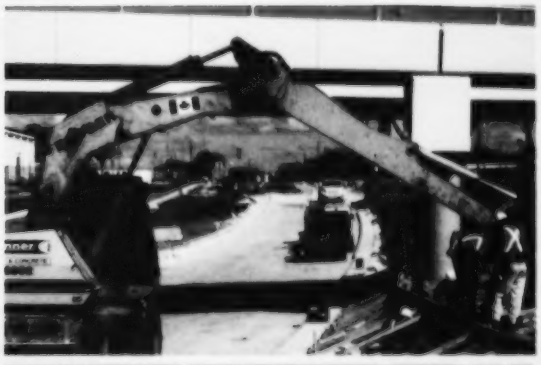
Barry MacBride, Director, Water and Waste

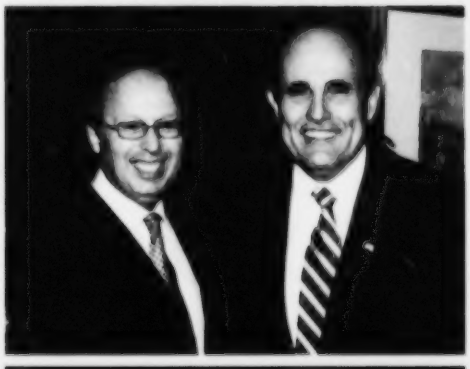
Wes Shoemaker, Chief, Winnipeg Fire Paramedic Service

Dave Wardrop, Director, Winnipeg Transit

Clive Wightman, Acting Director, Community Services

Shannon Hunt, City Auditor
Richard Kachur, City Clerk





Above l-r: The Redmond Bridge (1910) sparkles again after a $9.6 million renewal. Photo: City of Winnipeg. Lyric Theatre in Assiniboine Park. Photo: City of Winnipeg. Art on the Avenue Sculpture Walk is a 10-piece temporary Public Art Display along Portage Avenue. Photo: Winnipeg Downtown Biz. The $48 million Kenaston Underpass was opened by Federal Minister Vic Toews, President of the Treasury Board, Kerri Irvin-Ross, Provincial Minister of Healthy Living and Mayor Sam Katz. Photo: City of Winnipeg. Winnipeg Police Service officer on patrol. Photo: City of Winnipeg. Construction work on the Kenaston Underpass. Photo: City of Winnipeg. Mayor Katz with former New York City Mayor, Rudy Giuliani who gave the keynote address at the Winnipeg City Summit, a forum to explore ideas on the future of our City. Photo: City of Winnipeg. Biz Patrol. Photo: Winnipeg Downtown Biz. A bank of windows lights up downtown's Millennium Library. Photo: Destination Winnipeg Inc / Daniel Molinski. Folklorama celebrates Winnipeg's diversity every August. Photo: City of Winnipeg. Mayor Katz joined 12,000 runners in the 28th Manitoba Marathon. The Mayor completed the 26 mile course. Photo: City of Winnipeg.

WINNIPEG & ITS ECONOMY

A DIVERSE, VIBRANT CITY

The City of Winnipeg lies at the geographic centre of Canada. As the economic engine and capital city of the province of Manitoba, Winnipeg has a population of 648,600, the seventh largest city municipality in Canada.

Winnipeg is popularly known as having all the benefits and amenities of a large city without many of the disadvantages. In fact, Winnipeg's major advantage is its diverse economy, which has allowed the City to experience consistent and steady growth, avoiding the impact of unexpected downturns. In comparing the economic diversities of the largest cities in the country, the Conference Board of Canada rates Winnipeg's index at 0.89 out of 1.00, with the average of major cities at 0.82.

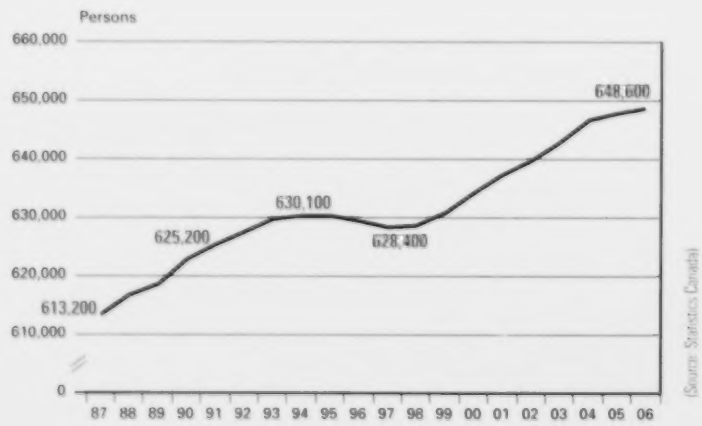
A rich culture, affordable housing, abundance of office and industrial space, low unemployment rates, manageable traffic volumes, and a diverse economy, make Winnipeg an ideal place for people of all ages and of all nationalities.

POPULATION GROWTH

Over the last eight years (1998-2006) Winnipeg's population (648,600) has grown by 20,200 or 3.2%.

Winnipeg will continue to experience modest population growth relative to other large Canadian cities. The population growth is largely due to immigration. Total provincial immigration reached 10,000 people in 2006. Historically Winnipeg is destination to about 80% of immigrants to Manitoba.

POPULATION ESTIMATES REFLECT RENEWED GROWTH



(Source: Statistics Canada)

"Winnipeg's economy is forecast to record another good year in 2007, growing by 2.9 per cent. Continued strength in domestic demand and in non-residential construction activity, along with a rebound in manufacturing output, will account for most of the growth."

(Source: The Conference Board of Canada, Metropolitan Outlook Winter 2007)

IMMIGRATION, TOP SEVEN CITY REGIONS (CMAs)

Toronto	112,790
Vancouver	39,434
Montreal	37,167
Calgary	11,185
Ottawa	6,389
Winnipeg	6,182
Edmonton	6,013
84%	219,160
Total Canada	262,236

(Source: Citizenship and Immigration Canada, Immigration Overview: Facts and Figures)

(CMA stands for Census Metropolitan Area)

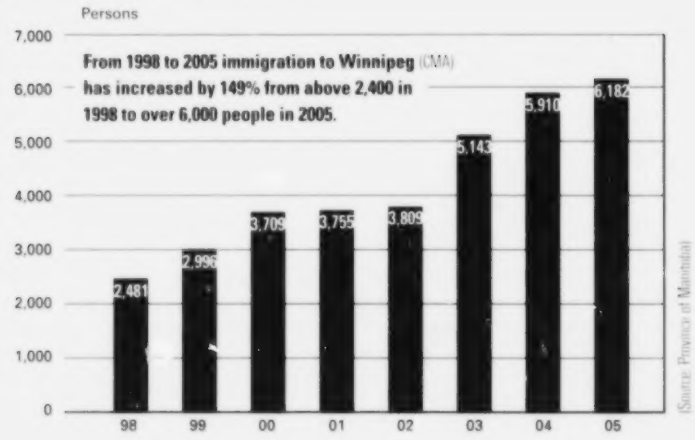
Immigration to Winnipeg has increased by 149% since 1998.

IMMIGRATION TO WINNIPEG, 2005 COUNTRIES OF ORIGIN

Philippines	1,772
India	637
China	337
South Korea	314
Ethiopia	266
Israel	261
Pakistan	158
United States	143
Ukraine	129
Sudan	120
Other Countries	2,045
Total	6,182

(Source: Citizenship and Immigration Canada, Immigration Overview: Facts and Figures)

RECENT IMMIGRATION TO WINNIPEG



STRONG HOUSING DEMAND

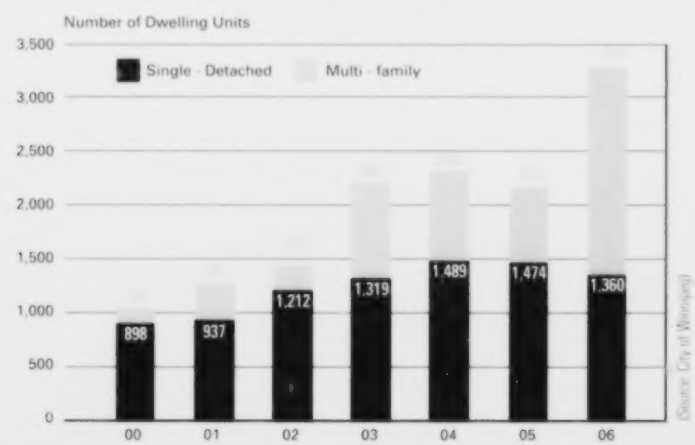
Housing starts have tripled since 2000 with the construction of 3,289 dwelling units in 2006. The value of residential construction was $446 million compared to $337 million in the previous year, an increase of 32%.

With a projected population increase of 100,000 people over the next 20 years, the demand for housing will continue. It is estimated that 40,000 to 45,000 additional dwellings will need to be constructed to meet the housing demand.

Some of that demand will be met when City Council approved in 2006 the Waverley West development in southwest Winnipeg. Waverley West is 2,900 acres with the development potential to add up to seven residential communities and accommodate approximately 30,000 people over the next 20-25 years.

The construction of new homes in the first neighbourhood in Waverley West is expected to get underway in the summer of 2007.

CONSTRUCTION OF DWELLING UNITS IN WINNIPEG



A GOOD PLACE TO DO BUSINESS

A 2006 study by KPMG showed Winnipeg has among the lowest overall business costs of major Canadian cities. Of 17 industries studied, Winnipeg was more cost competitive than the average. Canadian Business magazine rated Winnipeg in the top 10 Canadian cities to do business in their 2004 business cost survey.

WINNIPEG'S PROPERTY TAXES ARE IN THE LOW RANGE OF OTHER CANADIAN CITIES:

For the average single detached house, Winnipeg's property tax ranking out of 16 large cities (Total owner costs include municipal taxes, school taxes, municipality charged utilities and other utilities.):

- 5th lowest for municipal property taxes only
- 4th lowest for total property tax bill and utilities

(Source: City of Edmonton residential property taxes and utility charges survey, Jan. 2007)

ECONOMIC INDICATORS (CMA):

- Winnipeg's GDP in 2006: $22 billion (1997 dollars)
- Winnipeg has 60% of Manitoba's population and generates 65% of the province's total economic output
- Building permit values: $914 million, up 33% from 2005
- Labour Force: 401,000

(CMA stands for Census Metropolitan Area)

WINNIPEG'S MAJOR ECONOMIC STRENGTHS:

Many of Canada's leading companies and entrepreneurs call Winnipeg home:

- Historical financial centre of Western Canada. Headquarters of both GREAT-WEST LIFE ASSURANCE COMPANY, one of Canada's leading insurance companies and INVESTORS GROUP, Canada's largest mutual fund company
- Headquarters of CANWEST GLOBAL, Canada's largest integrated media company
- Canada's grain industry headquarters and Canada's only Commodity Exchange. Major agriculture-based corporations include: CARGILL LIMITED, JAMES RICHARDSON AND SONS, LIMITED, AGRICORE UNITED, and the CANADIAN WHEAT BOARD
- Home of the ROYAL CANADIAN MINT
- One of the most diversified secondary manufacturing sectors in Canada
- Over 50% of Canadian agricultural machinery output is manufactured in Manitoba
- Headquarters of NEW FLYER, the North American leader in urban transit manufacturing and plant operation for MOTOR COACH INDUSTRIES, the leader in the manufacturing of intercity highway coaches and bus replacement parts
- Headquarters of PALLISER FURNITURE, Canada's leading home furniture manufacturer
- Western Canada's largest and most diversified aerospace centre. World-class companies include: STANDARD AERO LIMITED, BOEING CANADA TECHNOLOGY and BRISTOL AEROSPACE LIMITED
- Fashion – the third largest garment production centre in Canada. Winnipeg firms include: MONDETTA, GEMINI FASHIONS, NYGARD INTERNATIONAL, WESTERN GLOVE WORKS, STANDARD KNITTING and PROSPERITY KNITWEAR

Housing starts have tripled since 2000 with the construction of 3,289 dwelling units in 2006.

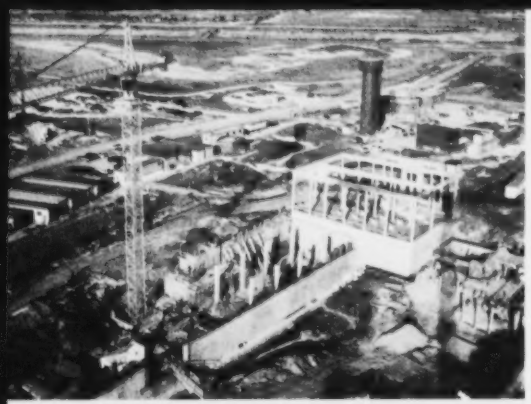
"Thanks to the multiple-family sector, housing starts in Winnipeg were able to post a sixth consecutive year of growth and the best total since 1989."

(Source: Canada Mortgage and Housing Corporation, January 2007)

VALUE OF CITY OF WINNIPEG BUILDING PERMITS ($ Millions)

	2005	2006	Increase
Residential	$337	$446	32%
Non-Residential	$319	$404	27%
Total	$656	$850	29%

(Source: City of Winnipeg, Planning, Property and Development Dept.)



Winnipeg's new $300 million (estimated) Water Treatment Plant is currently under construction at the Deacon Reservoir. The plant will be approximately 12,000 square metres about the size of the downtown MTS Centre. The concrete pour alone was 1,100 cubic metres, the largest by PCL Construction in Manitoba. When completed by the end of 2008, the plant will be able to treat 400 million litres of water a day.

CITIZENS FIRST: SERVICE HIGHLIGHTS 2006

INFRASTRUCTURE INVESTMENT

- The 2006 Capital Budget and forecast outlined a $1.4 billion plan for the City's priority projects for 2006-2011. An agreement on the sharing of federal gas tax between the federal and provincial governments and the City will result in a transfer of $101 million of gas tax revenue to the City over five years. The gas tax fund will support City infrastructure including wastewater and transit projects.
- The Capital budget and forecast included $284 million for roads and bridges over the next six years. The budget to maintain regional and local streets saw large increases rising to $43 million in 2006, compared to $20.1 million in 2005. The bulk of that streets investment was targeted at regional roads - $27.1 million, more than quadrupling the budget of $5.8 million budgeted for major streets renewals from the previous year.
- Rehabilitation of the northbound segment of the Maryland Bridge took place in 2006. The southbound bridge was completed in 2005. Construction work, which took six months to complete at an approximate cost of $8 million included demolishing and rebuilding the bridge's handrail, sidewalk, traffic barriers, deck concrete and asphalt, roadway approaches, and installing new lights. The work is expected to preserve the condition of the Maryland Bridge for another 40-50 years.
- The Redwood Bridge Rehabilitation Project was completed in 2006. A major portion of the project involved replacing existing wooden sidewalks with modern concrete walks. The $9.6 million project also included repairing or replacing corroded steel works that support the walks.
- The 2006 Capital budget and forecast included $142 million to enhance the speed, comfort and convenience of Winnipeg Transit riders. The Transit plan includes articulated buses, priority signals to speed service, and heated shelters. Real-time bus schedules will be available through on-street electronic displays and the installation of on-board cameras will improve safety.
- The City's rivers and the environment are benefiting from significant investment in our sewage treatment facilities. One $19 million project at the North End Water Pollution Control Centre uses ultraviolet (UV) light as a disinfectant on the treated effluent.

  A further $67 million is being invested in projects to reduce the Phosphorus (P) and Nitrogen (N) content in the wastewater at both the North End and West End Pollution Control Centres.
- The Fire Paramedic Service is building a new West Transcona Fire Paramedic Station #21. The new $2.25 million facility will replace the

existing one and will contain three bays and be equipped with a Quint firefighting apparatus (combination aerial ladder, pumper and rescue unit), and an ambulance.

- The Winnipeg Police Service is seeking greater efficiencies in operations through implementing an organizational change called the Four District Model. The WPS will reduce its number of Districts from six to four and build three modernized Police stations. The new stations will be built as public-private partnership (P3) projects. The location of the first of the three stations, the East District Station, was approved by Council in 2006. The final plan for the East District Station calls for a 33,000 square foot facility. The target move-in date for the new building is September 2008.

PARTNERSHIPS

- The Kenaston Boulevard underpass opened in September 2006. The $48.1 million project was cost shared by the Government of Canada, the Province of Manitoba, and the City. The construction of the underpass will eliminate commuter delays on a busy north/south route at the rail crossing at Kenaston Boulevard. The project also included the construction of Sterling Lyon Parkway and Lorimar Boulevard, and the upgrade of associated intersections.
- Waverley West is an area of land approximately 3,000 acres located in southwest Winnipeg. In 2005 Council amended Plan Winnipeg to make way for residential development in the area. Following approval of an Area Structure Plan, in 2006 a Neighbourhood Area Structure Plan was prepared to provide direction in the development of the first of six distinct neighbourhoods in Waverly West. A subdivision and zoning for the first neighbourhood was also approved.
- The WinSmart showcase was announced by the three levels of government in November 2006. The projects are designed to reduce greenhouse gas emissions from urban transportation in Winnipeg.

  Seven projects are being managed by the City.

  Through this showcase, Transit will be investing in two 60-foot articulated hybrid diesel-electric buses, and adding technology improvements such as electronic bus displays and an automatic vehicle location system to ease customer travel.

  Another large WinSmart project is the construction of an active transportation path running through the Fort Rouge Yards and connecting to existing paths along the Red River.
- An Intermunicipal Service Sharing Initiative, launched early in the year, is designed to share in the benefits of and promote regional economic growth by delivering City services to surrounding municipalities. In 2006, Council directed the administration to develop service sharing agreements with the municipalities of East St. Paul and Macdonald and to continue discussions with Rosser and West St. Paul. These initiatives will help ensure the efficient use of taxes in the region and supports regional cooperation on economic development issues.

The graffiti removal budget was increased by $200,000 in 2006 for a total budget of $641,000.

Winnipeg's historic Exchange District was used for this turn-of-the-century period film, *The Assassination of Jesse James* starring Brad Pitt. In 2006 there were 14 full length feature films made in Winnipeg.

Service based budget information was gathered in 2006 to enable the 2007 operating budget to be adopted with a 'service based view'. This new budget view identifies each City service, describes its goals, costs to deliver, and source of funding.

- In accordance with the City of Winnipeg Recreation, Leisure and Libraries Facilities Policy, for the first time in the City's history, a grassroots-driven business plan prepared by the General Council of Winnipeg Community Centres was delivered to, and approved by Council. This business plan provides clear direction for the upcoming year on the amalgamation, renovation and reconstruction of community centres across Winnipeg for the upcoming year.
- Work began on the projects outlined in the $43 million Recreation and Leisure Fund. Design work was completed on the Bronx Park/ Good Neighbours Centre and the Norquay Spray Park. Ground was broken on both the SkatePark West and Komenda skateboard parks. Conceptual work began on both the North End Recreation and Leisure Facility and the Kildonan Park Urban Oasis. In addition, conceptual design work was completed on the Cindy Klassen Recreation Complex and design work began on the Fort Garry Skatepark.
- The new $2.1 million Red River Community Centre was officially opened in September. The 11,270 square foot facility was designed with input from the community, City staff and Community Centre representatives through a "collective" design process. The project was funded jointly through the Canada-Manitoba Infrastructure Programs in partnership with Red River Community Centre supported by the General Council of Winnipeg Community Centres, the community and local business.
- Work was completed on the Assiniboine Forest Access Improvement Project and the development of a new trail system. In a partnership between the City and the Charleswood Rotary Club, a new limestone trail was built in the Forest along with a new interpretative entranceway. Over 700 acres, the Assiniboine Forest contains two wetland areas and over 11 acres of endangered tall grass prairie habitat, making it the ideal home for a variety of wildlife species. The Forest provides unique learning experiences and a quiet place to walk, relax, and enjoy nature.
- The Aboriginal Scholarship and Service Awards, designed to boost Winnipeg's commitment to the City's growing Aboriginal community, were presented to eight students attending inner city schools. City Council approved the creation of the Awards program on the initiative of staff in two City Departments (Planning, Property and Development, and Corporate Services) in partnership with the Winnipeg School Division. The program supports the Council approved stragety, *First Steps: Municipal Aboriginal Pathways (MAPS)* to align with Plan Winnipeg's direction that the City "Promote Self-reliant Aboriginal Communities". Among the commitments in this document was one to undertake initiatives to enhance the participation of Aboriginal people in both the civic and community workforce.

SAFETY

- Based on the success of Operation Clean Sweep – a pilot project focussing initially on the City's West End – the Province of Manitoba and the City of Winnipeg announced ongoing, new funding in April

to sustain the Police Service's special task force, now called the Street Crime Unit. The Street Crime Unit's approach is one of strategic, proactive and intelligence-led policing.

- A public awareness campaign to address aggressive panhandling (outlined in the City's Obstructive Solicitation By-law) in the Downtown was launched in June 2006. The campaign encourages citizens to give to the Change for the Better program, with the monies collected going to social agencies that help people in need. The Winnipeg Police Service and the City of Winnipeg have partnered with several Business Improvement Zone (BIZ) organizations and downtown social agencies to carry out this initiative.
- Council supported additional funding to the Winnipeg Fire Paramedic Service to add one additional ambulance and 12 new paramedic positions, as well as funding for the equivalent of four full-time firefighter positions.
- The new Electronic Patient Care Reporting (E-PCR) system, leading-edge technology - will usher in a new era in emergency patient care in Winnipeg that will save minutes on each emergency call. The new system is being field tested in 2007. With medical call volumes increasing by nearly 10 per cent per year, the new system will reduce documentation time, reduce pressure on emergency personnel, provide real-time patient information, and lead to improved patient care.

CUSTOMER SERVICE

- Planning, Property and Development's Permits X-Press project, a City-led initiative designed to speed up and improve the permit application process, made significant progress in 2006. Recommended improvements relating to building permits and development processes are being implemented. A contractor and developer survey conducted in 2006 indicated that 83% of respondents had observed improvements to the permits service in the last six months up from 70% in a 2004 survey.
- Planning, Property and Development took steps to improve the Public Notification System to provide citizens with clearer and more visible information on upcoming development projects in their area. The new public signage is written in plain language, with large format signs designed for sites located on major traffic routes. An interactive web page provides information on public notices in each neighbourhood.
- The Winnipeg Parking Authority, which operates three indoor parkades and monitors all on-street parking, modernized its operations in 2006 with the installation of 256 solar powered pay stations replacing approximately 1,100 outdated meters. The new pay stations take credit cards and issue receipts making parking more convenient for citizens. The Parking Authority also invested in the upgrade and maintenance standards of its parkades which earned it a national award from the Canadian Parking Association (CPA). The CPA noted that Winnipeg, "has achieved, and in some cases exceeded, the national standard in these facilities".

In 2006, the value of new construction permits issued by the City was $850 million. There were 8,987 residential and non-residential permits issued and 3,289 dwelling units constructed in the City in the past year.

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

Management has prepared the following Financial Statement Discussion and Analysis, which comments on The City of Winnipeg's ("the City") activities for the most recent fiscal year ended December 31, 2006 on a comparative basis. This information should be read in conjunction with the audited consolidated financial statements and the notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements provides information about the assets, liabilities, revenues and expenses of the departments, special operating agencies, utilities, and corporations that are controlled by the City, and its investment in government businesses. Below is a brief description of these major funds, entities and investments that are included in the consolidated financial statements.

FUNDS, ENTITIES, AND INVESTMENT IN GOVERNMENT BUSINESSES

The General Revenue Fund reports on property tax-supported operations, which entails such services to citizens as police, fire, ambulance, library and street maintenance. The General Capital Fund was created to account for tax-supported capital projects. The tax-supported capital program is made up of, but is not limited to, the acquisition and/or construction of streets, bridges, parks and recreation facilities. The utility operations are comprised of the Transit System, Waterworks System, Sewage Disposal System and Solid Waste Disposal Funds. The civic corporations include the Winnipeg Public Library Board, The Convention Centre Corporation, Destination Winnipeg Inc., Winnipeg Enterprises Corporation ("WEC"), Winnipeg Arts Council Inc., and CentreVenture Development Corporation. These corporations are involved in economic development, recreation, tourism, entertainment, and conventions. North Portage Development Corporation and Winnipeg Housing Rehabilitation Corporation are included in the consolidated financial statements as an investment in government businesses.

There are five Special Operating Agencies ("SOA") established within the City's organization. Animal Services (2000), Glacial Sand and Gravel (2001), Winnipeg Golf Services (2002), Fleet Management (2003) and Winnipeg Parking Authority (2005) provide services as special units of the City. They are granted more direct responsibility for results and increased management flexibility needed to attain planned levels of performance.

SOAs have been given the authority to provide direct public services, internal services, or regulatory and enforcement programs. SOA status is granted when it is in the City's interest that they remain within the government but require greater freedom to manage in a more business-like manner. Each SOA is governed by its own operating charter and prepares an annual business plan for adoption by City Council.

City Council has approved the establishment of Reserve Funds that can be categorized into three types. Capital Reserves were established to finance current and anticipated future capital projects that reduce or eliminate the need to issue debt. Special Purpose Reserves were established to account for the use of designated revenue to fund costs, and Stabilization Reserves were created to assist in the funding of major unexpected expenses or deficits recorded in the General Revenue Fund.

RESTATEMENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The City has restated its financial statements to comply with the provisions of Section 3150 of the Public Sector Accounting Board Handbook which requires local governments to record and amortize tangible capital assets on their financial statements. Prior to this change, the City recorded its tangible capital assets to match corresponding debt outstanding, equity allocated internally and acquisitions made from Capital Reserves. The tangible capital assets were amortized at amounts equal to the principal repayment of the debt.

The 2005 opening accumulated surplus has increased by $2.6 billion to reflect the application of the provisions of Section 3150. The 2005 excess of revenues over expenses has been restated to include tangible capital assets previously expensed, revenue from contributed tangible capital assets, capital grants recorded as revenue, and an increase in amortization expense.

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to the acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives. The estimated useful lives of tangible capital assets range from five to 100 years.

As at December 31 (in thousands of dollars)	2006	2005
General		
Land	$ 171,400	$ 176,158
Buildings	223,801	221,112
Vehicles	125,225	126,254
Computer	44,625	46,557
Other	50,142	40,880
Infrastructure		
Plants and facilities	228,320	230,769
Roads	723,638	693,507
Underground and other networks	1,633,958	1,630,473
Bridges and other structures	315,176	305,621
	3,516,285	3,471,331
Assets under construction	153,460	69,579
	$ 3,669,745	$ 3,540,910

During the year there were no write-downs of tangible capital assets. Roads and underground networks contributed to the City totalled $14.3 million (2005 - $17.1 million) and were capitalized at their fair value at the time of receipt along with $1.3 million (2005 - $1.0 million) of interest.

The City had previously recorded capital grants for the purchase of tangible capital assets as a reduction of the cost of the asset. Commencing in 2006, and applied retroactively, the City now records capital grants as revenue in the year that tangible capital assets are acquired.

The opening 2005 accumulated surplus has also been restated by $20.7 million to reflect the investment in government businesses and a wholly-owned corporation. North Portage Development Corporation is one-third owned by the City and is recorded as a government business partnership. Winnipeg Housing Rehabilitation Corporation was created by the City and is reported as a government business enterprise. Both businesses are accounted for using the modified equity method. Under this method, the government businesses' accounting policies are not adjusted to conform with those of the City and intercorporate transactions are not eliminated.

RESULTS OF OPERATIONS

The Consolidated Statement of Operations reports the City's changes in economic resources, obligations, and accumulated surplus for 2006, on a comparative basis. As the annual excess of revenues over expenses was positive, it indicates that the revenues raised during the year were sufficient to cover costs.

During the year, the City recorded consolidated revenues of $1,105.5 million (2005 - $1,039.1 million), including capital grants, and consolidated expenses of $985.2 million (2005 - $963.4 million). As a result, accumulated surplus increased by $120.3 million (2005 - $75.7 million). Revenues improved by $66.4 million in 2006 from 2005, due to several factors. Government grants and transfers related to the purchase of tangible capital assets increased by $21.4 million. During 2006 the City recorded revenues of $18.7 million under the Federal Gas Tax Funding Agreement and $3.7 million from the Canadian Strategic Infrastructure Fund ("CSIF").

On November 18, 2005, the Government of Canada and the Province of Manitoba ("the Province") entered into an agreement on the Transfer of Federal Gas Tax Revenue under the New Deal for Cities and Communities. Under the agreement, the Province administers the funds on behalf of the Federal Government and conditionally provides the funds to the City subject to receipt of funding from the Federal Government. The funds are intended for eligible projects in the areas of Public Transit and Wastewater.

On April 10, 2006, the Province and The City of Winnipeg signed the Gas Tax Funding Agreement. The agreement was effective April 1, 2005 and continues until March 31, 2015 or unless terminated earlier. The CSIF is a Federal and Provincial government program that reimburses the City for 50% of its costs on certain eligible projects.

Government grants and transfers related to operating activities increased by $10.2 million. This was in part due to $3.0 million received from the Province, which provides Winnipeg with similar treatment to other Provincial municipalities that receive 25% of their costs of property assessment from the Province, and $2.4 million from the Province regarding casino revenues.

Sales of services and regulatory fees include revenue sources such as water and sewage services, transit fares, and ambulance services. Increased revenue was generated by sewer service rates that rose to 3.87 per 100 cubic feet from 3.39 per 100 cubic feet. Also, Transit raised their fares and ridership increased during the year. Photo enforcement revenue was higher due to the revised fine structure introduced by the Province and increased enforcement.

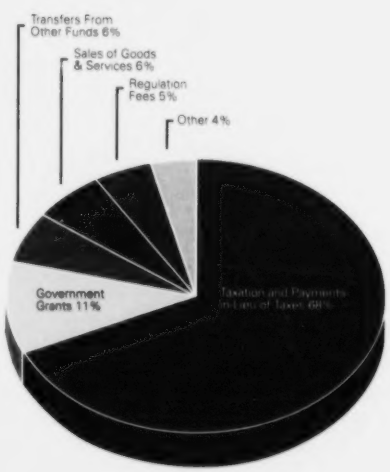
For the years ended December 31 (in thousands of dollars)	2006	2005
Taxation	$ 518,661	$ 503,594
Sales of services and regulatory fees	356,761	339,539
Government grants and transfers		
Operating	109,236	99,040
Capital	43,064	21,685
Investment, land sales, contributions and other revenue	77,811	75,266
	$ 1,105,533	$ 1,039,124

The major components of taxation revenue are property, business, local improvements, electricity and natural gas taxes. Municipal property tax revenue, excluding payments to the Province and school divisions, grew from its 2005 level as a result of assessment growth.

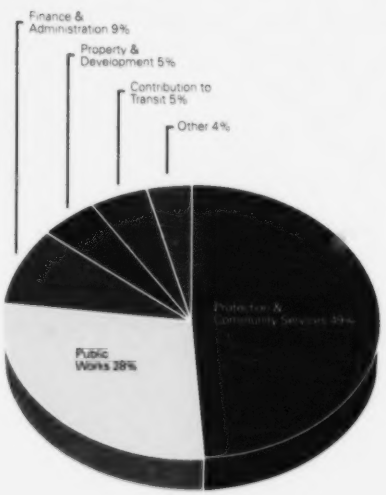
Consolidated expenses grew by $21.8 million from the previous year. This resulted from an additional $17.8 million spent on protection and community services, which includes the Police Services and Fire Paramedic Service departments. The increase is mainly caused by increased salaries and employee benefits. Expenses related to public works declined by $11.4 million due primarily to lower costs associated with snow removal resulting from favourable weather conditions.

For the years ended December 31 (in thousands of dollars)	2006	2005
Salaries and benefits	$ 530,881	$ 510,928
Goods and services	271,530	270,707
Amortization	125,681	122,718
Interest	45,665	50,283
Grants and other expenses	11,476	8,763
	$ 985,233	$ 963,399

GENERAL REVENUE FUND 2006 ACTUAL REVENUES



GENERAL REVENUE FUND 2006 ACTUAL EXPENSES



The consolidated financial statements include the services reported in the General Revenue Fund, which are 52% (2005 - 52%) funded by municipal realty tax revenues. The 2006 budget for the property tax-supported operations was adopted by City Council on March 21, 2006. During the budget process the City faced several challenges to produce a balanced budget while maintaining its commitment to a competitive tax environment. The result was the ninth consecutive approved budget without an increase to property taxes. The budget included increased funding for public safety, continued fiscal restraint and frontline essential services were maintained. The business tax rate for businesses located in the downtown geographic area continued at 7.75%, and the budget included a plan to partially offset business tax increases due to the 2006 general assessment.

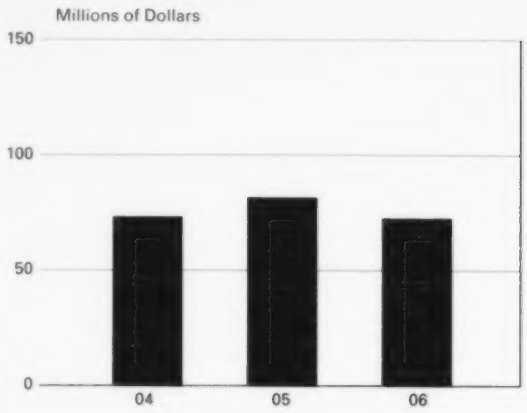
During 2006, the General Revenue Fund incurred revenues and expenses of $724.6 million (2005 - $711.5 million). Several unexpected events occurred that impacted the financial results of the City's property tax-supported operations. The City experienced higher road maintenance costs during the winter and increased flood and fire paramedic service costs. These were offset by savings achieved in other departments, and increased investment and photo radar revenues. At the end of the year, the General Revenue Fund reported a net surplus of $0.7 million, which was transferred to the Mill Rate Stabilization Reserve.

FINANCIAL POSITION

The Consolidated Statement of Financial Position reports the City's financial and non-financial resources, obligations and accumulated surplus as at December 31, 2006, on a comparative basis. This statement is used to evaluate the City's ability to finance its activities and to meet its liabilities and commitments. An important indicator on the Statement of Financial Position is the City's net financial assets.

Net financial assets is the difference between financial assets and liabilities, which provides an indication of the affordability of additional spending. As at December 31, 2006, the City was in a net financial asset position of $71.8 million (2005 - $81.0 million). The change in this indicator is comprised of various elements including tangible capital assets acquired in the year totalling $263.1 million.

NET FINANCIAL ASSETS



INVESTMENT MANAGEMENT

INVESTMENTS

The City's primary investment is Manitoba Hydro's obligation as a consequence of the sale of Winnipeg Hydro in 2002. The terms of the sale include annual payments of $25 million commencing in 2002 and for the next four years thereafter; $20 million per annum for years six to nine; and $16 million for years ten in perpetuity. The investment is determined based on the discounted sum of future cash flows that have been guaranteed by the Province of Manitoba.

Marketable securities are generally long-term in nature. These securities are being held to finance future anticipated costs such as the construction of the water treatment plant or perpetual maintenance at the three cemeteries that are maintained by the City. City Council has approved an Investment Policy to provide the Administration with a framework for managing its investment program. Safety of principal is the overriding consideration for investment decisions. Consideration is also given to risk/return, liquidity and the duration and convexity of the portfolio.

As at December 31 (in thousands of dollars)	2006	2005
Marketable securities		
Government of Canada	$ 12,100	$ 44,154
Provincial	8,466	49,754
Municipal	1,457	-
	22,023	93,908
Manitoba Hydro long-term receivable	243,751	253,539
Other	914	742
	$ 266,688	$ 348,189
Market value of marketable securities	$ 23,757	$ 96,838

ACCOUNTS RECEIVABLE

As at December 31, 2006, property, payments-in-lieu and business tax receivables, net of the allowance represented 25% (2005 - 23%) of total accounts receivables. Taxation revenue is 47% (2005 - 48%) of total consolidated revenue.

As at December 31 (in thousands of dollars)	2006	2005	2004	2003	2002
Taxes receivable	$ 41,350	$ 37,698	$ 40,436	$ 42,761	$ 47,978
Allowance for tax arrears	(6,326)	(6,364)	(6,394)	(5,056)	(4,023)
	$ 35,024	$ 31,334	$ 34,042	$ 37,705	$ 43,955

Section 371 of The City of Winnipeg Charter provides Administration with the authority to collect taxes due on real property in the City.

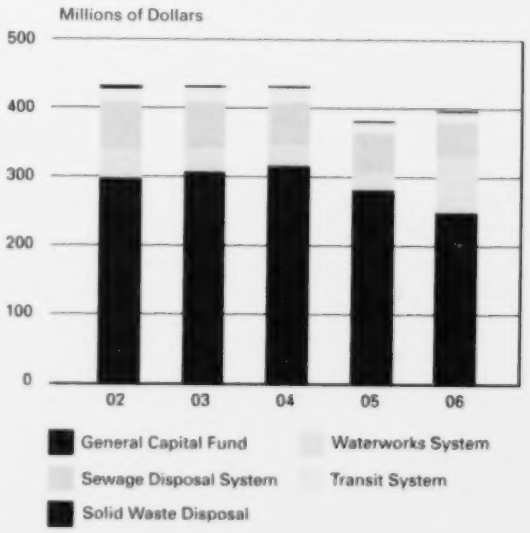
DEBT MANAGEMENT

As at December 31 (in thousands of dollars)	2006	2005
Net debt		
Sinking fund debentures	$ 488,500	$ 428,500
Equity in Sinking Fund	(222,723)	(198,965)
	265,777	229,535
Serial and installment debt	130,855	152,726
Bank loans	28,497	8,821
Capital lease obligations	22,478	23,620
	$ 447,607	$ 414,702

The City of Winnipeg has several types of debt obligations. The largest component of debt is sinking fund debentures. Under The City of Winnipeg Charter the City is required to make annual payments towards the retirement of sinking fund debt. These annual payments are invested primarily in government and government-guaranteed bonds and debentures, which include City of Winnipeg debentures. By investing in bonds and debentures of investees that are considered to be high quality credits, the City reduces its credit risk. Credit risk arises from the potential for an investee to fail or to default on its contractual obligations.

On July 10, 2006, the City launched a $60 million 30-year debenture. The yield on the issue was 5.2% and matures on July 17, 2036. This issue will be used to finance the construction of the water treatment plant. Except for the debt issued in 2006, all of the outstanding sinking fund debt will mature by 2017. Repayment of debt will be made in full from the Sinking Fund except for $50.0 million that will become payable in 2009. This debenture will have a sinking fund shortfall of $31.0 million and it is anticipated it will be refinanced.

NET SINKING FUND DEBENTURES, SERIAL AND INSTALLMENT DEBT



The City has also incurred serial and installment debt that have varying maturities up to 2014 and carry a weighted average interest rate of 4.8% (2005 - 4.8%). Annual interest and principal payments are made on the debt to the investors. In addition, the City has guaranteed the payment of principal and interest on capital loans for several third parties that totalled $6.3 million (2005 - $7.3 million). The City does not anticipate incurring *future* payments relating to these guarantees.

In 2006, Standard & Poor's advised the City that its credit rating would be maintained at AA and Moody's Investors Service announced it would be raising the City's credit rating to Aa1 from Aa2. These debt ratings contribute to the City's ability to access capital markets and should result in future lower borrowing costs.

Beginning in 1998, the City discontinued issuing new tax-supported debt. Under its current capital plan, all new tax-supported projects are financed internally. As a result the level of tax-supported debt decreased by $229.5 million from 1999, and is expected to decrease continuously over the next few years along with the associated debt-servicing costs. Within the utilities, the City anticipates issuing $116.8 million in debt over the next few years to finance a water treatment plant estimated to cost $300 million. The Water Treatment Reserve, which was established on December 17, 1993, had a balance at December 31, 2006 of $25.2 million (2005 - $73.7 million). This Reserve will fund a significant percentage of the cost of this project.

In addition, the 2006 utilities capital budget includes $189.3 million in debt over the next six year period to fund projects mandated by the Province of Manitoba through the Clean Environment Commission ("CEC"). During 2003 the CEC, at the request of the Minister of Conservation, conducted public hearings to review and receive comments on the City's 30-year wastewater collection and treatment improvement program. At the conclusion, the CEC recommended that the City implement these improvements over a 25-year period, which is estimated to cost $1.2 billion. Partial funding for these improvements will be provided by the Environmental Projects Reserve, which had a balance at December 31, 2006 of $46.9 million.

TANGIBLE CAPITAL ASSETS

The challenge in creating a capital budget is balancing infrastructure needs, protecting the environment and fiscal responsibility. The 2006 capital budget and the 2007 to 2011 five-year forecast was adopted by Council on February 21, 2006. The capital investment plan committed $1.4 billion in spending over the next six years with $307.6 million in 2006. Priority was given to enhanced investment in roads and bridges, transit and community facilities. Areas of major capital investment included in the six-year plan were $469 million for the sewage and solid waste disposal projects; $284 million for roads and bridges; $184 million for the water system; $142 million each for the transit system and for land drainage and flood control; and $44 million for the recreation and leisure facilities initiative.

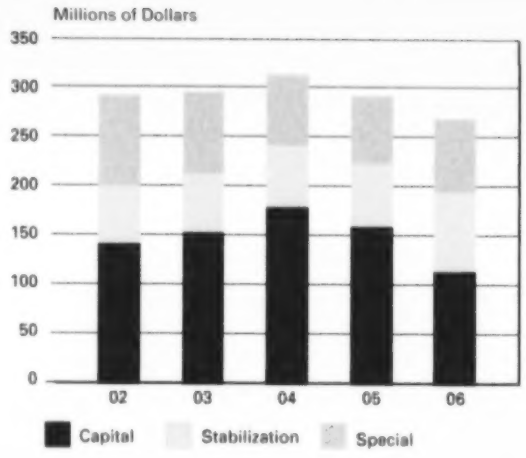
The capital budget also includes $87.0 million of funding from the senior levels of government through the CSIF, which was applied towards the Kenaston Underpass project, three pollution control centres and recreation and leisure facilities. It is anticipated the Federal Government will also be providing $28.7 million under Bill C-66 over 2007 to 2008. In addition, the Province of Manitoba has continued with its commitment to fund capital projects through the new framework of the Building Manitoba Fund with approximately $59.6 million dedicated for roads and transit over the next 6 years. The City will also be working with the Province to select projects for funding under the new Manitoba/Winnipeg Infrastructure Program–formerly Urban Capital Project Allocation–totalling $70.0 million over six years.

During 2006, the City spent $263.1 million on capital projects (2005 - $199.3 million), which included $130.1 million for tax-supported projects. Spending on tax-supported projects was made primarily on roads and bridges, water and waste infrastructure, and buildings.

RESERVES

Reserve balances have decreased overall by $22.5 million from the prior year. The City's Capital Reserves balance dropped by $43.4 million. In particular, the Water Treatment Reserve declined by $48.5 million as work continued on the water treatment plant. Special Purpose Reserves rose by $5.7 million, while the Stabilization Reserves increased by $17.2 million thereby exceeding, in total, their targeted level of 10% of the property tax-supported adopted budget expenses. During 2006, three reserve funds were consolidated into the financial statements. The Federal Gas Tax Revenue Reserve Fund, which was created to account for the revenue received under the "Agreement on the Transfer of Federal Gas Tax Revenues"; the Public Transit Reserve Fund, which is dedicated for eligible projects to be funded by the Government of Canada through Bill C-66; and the Insect Control Urgent Expenditures Reserve Fund, which was created to absorb unexpected costs in years where the City of Winnipeg experiences above average response levels associated with insect control.

RESERVES

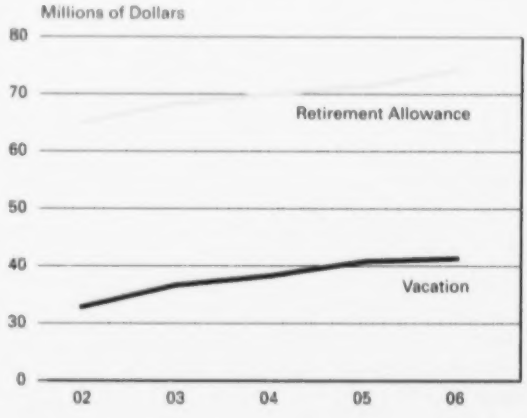


ACCOUNTING POLICIES

The significant accounting policies used in preparing the City's consolidated financial statements are summarized in Note 2 to these statements. The accounting policies section of the financial statements sets out management's decisions concerning estimates that may significantly impact the City's financial results. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes. The following is a discussion of these critical accounting estimates.

EMPLOYEE BENEFITS

The City provides pension and sick leave benefit plans for qualified employees. The cost of these employee benefits are actuarially determined each year. These calculations use management's best estimate of a number of assumptions. The critical assumptions made by management are the long-term rate of investment return on plan assets, certain employee-related factors such as turnover, retirement age and mortality, salary escalation and the discount rate used to value liabilities. Management applies judgment in the selection of these assumptions based on past experience and on forecasts of future economic and investment conditions. As these assumptions



relate to factors that are long term in nature, they are subject to a degree of uncertainty. Differences between actual experience and the assumptions, as well as revisions to the assumptions resulting from changes in future expectations, may lead to adjustments to the City's pension and sick leave benefits expense in future years. The City contributes to a number of pension plans. The two major plans are The Winnipeg Civic Employees' Pension Plan and the Winnipeg Police Pension Plan. Both Plans have funded surpluses that allow the City to take advantage of decreased contributions to the Plans.

The Winnipeg Civic Employees' Pension Plan is similar to a defined contribution pension plan, the terms of which eliminate the City's exposure to future unfunded liabilities. The Plan is a multi-employer contributory plan governed by an independent board of directors. The Police Plan is a defined benefit plan with the City being responsible for unfunded liabilities. The funded surpluses of the Plans are not recorded on the City's consolidated financial statement.

BUSINESS RISKS

ENVIRONMENTAL MATTERS

As indicated previously, the City is subject to environmental laws including the regulation of water consumption and treatment by the CEC that will result in significant future capital acquisitions. As well, The City of Winnipeg operates one landfill, the Brady Landfill Site, and is required to monitor and maintain several former landfill sites. The City is responsible for future landfill closure and post closure care requirements defined in accordance with the Environmental Act. In determining the City's environmental liability, management has estimated the total cost to cover and landscape the landfill along with site maintenance, available site capacity, and remaining life. The liability is measured on a discounted basis using the long-term cost of borrowing at year-end.

LABOUR NEGOTIATIONS

As at December 31, 2006, 54% (2005 - 53%) of the City's expenses related to salaries and employee benefits. The City employed approximately 8,800 staff, which are represented by eight unions and associations. The City has in place labour agreements with its unions and associations as follows:

Union/Association	Agreement Expiry Date
Amalgamated Transit Union - Local 1505 (ATU)	January 12, 2008
Canadian Union of Public Employees - Local 500 (CUPE)	December 30, 2007
Professional Paramedics Association of Winnipeg (PPAW)	February 13, 2007
United Fire Fighters of Winnipeg - Local 867 (UFFW)	December 26, 2005
Winnipeg Association of Public Service Officers (WAPSO)	October 11, 2006
Winnipeg Fire Paramedic Senior Officers' Association (WFPSOA)	February 22, 2007
Winnipeg Police Association (WPA)	December 23, 2006
Winnipeg Police Senior Officers' Association (WPSOA)	December 19, 2006

The collective agreements provides a process to revise wage and employee benefit levels through negotiations. In addition, collective bargaining disputes with certain of the bargaining units are resolved through compulsory arbitration at the request of either or both parties.

HUMAN RESOURCES

The City's workforce has steadily decreased to its current level from 11,000 in 1990. There is potential for significant turnover within the civic service due to the high percentage of the workforce that will be eligible to retire within the next few years. The workforce of the future will require diverse skills to effectively meet the work challenges of tomorrow.

During July 2001, City Council approved the "Human Resource Strategic Plan" that will guide the City as it moves to a smaller, more flexible, more highly skilled workforce. The Plan identifies a long-term vision, supporting success factors, and the most immediate priorities needed to achieve the business strategy. It also provides a long-term strategy for managing human resources that is aligned to the City's corporate goals.

ORGANIZATIONAL CHANGES

On September 27, 2006, City Council approved the cash sale of Glacial Sand and Gravel–Special Operating Agency's Pine Ridge facilities, equipment, and reserve assets for the price of $11.0 million. The closing date of the sale was January 3, 2007. As at December 31, 2006, Glacial had an accumulated deficiency of approximately $1.0 million. Included in the sale agreement is the City's ability to purchase material for its own purpose at prices paid by preferential clients, along with the ability to be supplied with emergency materials at preferred rates.

FINANCING INFRASTRUCTURE

As with other municipalities in North America, the City of Winnipeg is experiencing a decline in the condition of its infrastructure. The City undertook a comprehensive review of its infrastructure and found that there is a considerable deferred maintenance component of the infrastructure that will require future consideration. The "Agreement on the Transfer of Federal Gas Tax Revenues" that was signed between The Governments of Canada and Manitoba provides stable, reliable and predictable funding to the City for environmentally sustainable infrastructure. Eligible projects include public transit, water, wastewater, and solid waste. The 2006 six-year capital plan reflects $101.2 million from the Federal Government, which represents the City's share of the federal gas tax revenue.

CONTROLS AND PROCEDURES

Over the past year a number of reviews were conducted by the City Auditor. Reviews included audits of SOAs and consulting and revenue systems. Administration considers all internal control recommendations seriously and balances the cost of implementation against available resources and the extent of controls required to mitigate potential areas of concern. The City has a satisfactory level of controls required to ensure the accuracy of its financial statements.

LOOKING FORWARD

Section 284(1) of The City of Winnipeg Charter requires City Council to approve the tax-supported budget before March 31 of each fiscal year. On March 20, 2007, City Council approved the 2007 operating budget that provides for the tenth year of property tax freezes and reductions. The budget continues the plan to reduce business taxes, setting a rate of 7.75% for all City businesses and to partially offset business tax increases as a result of the 2006 general assessment. It included increased funding for clean and green services, public safety and infrastructure along with a continued emphasis on efficiencies

General Revenue Fund - Budget
For the years ended December 31
(in thousands of dollars)

	2007	2006	2005	2004	2003
Revenues					
Property tax	$ 419,035	$ 404,828	$ 399,507	$ 391,657	$ 388,736
Government grants	81,172	87,991	77,617	73,066	71,527
Sale of goods and services	63,312	65,720	69,900	68,682	66,994
Transfer from other funds	59,730	45,557	31,450	28,278	27,065
Business tax	57,584	62,240	62,273	62,662	62,417
Regulation fees	26,948	23,573	31,678	34,431	34,131
Other taxation	22,943	22,158	22,423	20,975	19,691
Interest	9,310	7,796	11,344	13,608	13,620
Other	1,020	1,096	807	875	730
	741,054	720,959	706,999	694,234	684,911
Expenses					
Public works	169,703	153,567	149,798	147,639	148,117
Police service	159,468	153,312	146,695	140,570	137,944
Fire paramedic service	113,845	108,753	103,785	103,165	99,204
Community services	92,002	88,588	85,814	83,030	80,485
Corporate	59,009	71,203	66,229	65,503	66,438
Planning, property and development	37,126	35,146	38,730	39,294	38,157
Water and waste	31,204	32,140	33,433	33,468	34,456
Corporate information technology	15,609	16,918	16,519	16,260	14,389
City clerks	11,809	11,256	11,356	10,565	9,862
Property assessment	11,427	11,413	12,418	11,972	12,514
Street lighting	10,492	10,128	9,522	9,610	9,463
Corporate services	10,067	9,271	10,421	9,213	8,474
Corporate finance	9,736	9,832	12,883	14,980	16,593
Other departments	9,557	9,432	9,396	8,965	8,815
	741,054	720,959	706,999	694,234	684,911
	$ -	$ -	$ -	$ -	$ -

Section 284(2) of The City of Winnipeg Charter requires City Council to approve the capital budget for that year and a capital forecast for the next five fiscal years before December 31 of each fiscal year. On January 25, 2007, City Council approved the 2007 capital budget and the 2008 to 2012 forecast. The capital budget addresses the infrastructure deficit, estimated at approximately $2 billion, and includes public-private partnerships ("P3") initiatives to facilitate project management and transfer risk. Projects eligible for P3 financing in the 2007 - 2012 plan are the repair of the Disraeli Bridge, widening of McGillivray Boulevard, and construction of police stations.

The plan includes Federal contributions from the Canada Strategic Infrastructure Fund, gas tax agreement and the Federal Public Transit Capital Trust Fund. It also includes Province of Manitoba support through the Manitoba-Winnipeg Infrastructure Program and the Building Manitoba Fund. In late 2006, the Province committed new funding for road improvements for future years.

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying Consolidated Financial Statements and all other information contained in this Annual Report are the responsibility of the management of The City of Winnipeg. The preparation of periodic financial statements involves the use of estimates and approximations because the precise determination of financial information frequently depends on future events. These Consolidated Financial Statements have been prepared by management within reasonable limits of materiality and within the framework of Canadian generally accepted accounting principles for governments established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to provide reasonable assurance that transactions are executed in accordance with proper authorization, that assets are properly accounted for and safeguarded, and that financial information produced is relevant and reliable.

Prior to their submission to Council, the Consolidated Financial Statements are reviewed and approved by the Audit Committee - the Mayor, the Deputy Mayor, and the chairpersons of Council's Standing Committees. In addition, the Audit Committee meets periodically with management and with both the City's internal and external auditors to approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The Committee is readily accessible to external and internal auditors.

Ernst & Young LLP, Chartered Accountants, as the City's appointed external auditors, have audited the Consolidated Financial Statements. The Auditors' Report is addressed to the Mayor and members of Council and appears on the following page. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to obtain reasonable assurance that the Consolidated Financial Statements are free of material misstatement and present fairly the financial position and results of operations of the City in accordance with Canadian generally accepted accounting principles.

Michael P. Ruta, FCA
Acting Chief Financial Officer

AUDITORS' REPORT

To the Mayor and Members of City Council of
The City of Winnipeg

We have audited the consolidated statement of financial position of The City of Winnipeg as at December 31, 2006 and the consolidated statements of operations, accumulated surplus, cash flows and change in net financial assets for the year then ended. These consolidated financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of **The City of Winnipeg** as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Winnipeg, Canada,
April 10, 2007

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

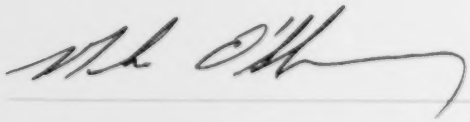
As at December 31 (in thousands of dollars)

	2006	2005 (RESTATED NOTE 23)
FINANCIAL ASSETS		
Cash and cash equivalents (Note 3)	$ 445,049	$ 291,214
Accounts receivable (Note 4)	141,204	136,700
Land held for resale	13,054	13,907
Investments (Note 5)	266,688	348,189
Investment in government businesses (Note 6)	22,096	22,118
	888,091	812,128
LIABILITIES		
Accounts payable and accrued liabilities (Note 7)	158,140	138,676
Deferred revenue (Note 8)	29,639	6,512
Debt (Note 9)	447,607	414,702
Other liabilities (Note 10)	38,841	41,611
Retirement allowance, compensated absences and other (Note 11)	142,097	129,607
	816,324	731,108
NET FINANCIAL ASSETS	71,767	81,020
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 13)	3,669,745	3,540,910
Inventories	13,731	14,000
Prepaid expenses	3,969	2,982
	3,687,445	3,557,892
ACCUMULATED SURPLUS (Note 14)	$ 3,759,212	$ 3,638,912
Commitments and contingencies (Notes 10, 15, and 16)		

See accompanying notes and schedules to the consolidated financial statements.

Approved on behalf of the Audit Committee:

Sam Katz – Mayor



Mike O'Shaughnessy – Chairperson, Standing Policy Committee on Finance

CONSOLIDATED STATEMENT OF OPERATIONS

For the years ended December 31 (in thousands of dollars)

	2006	2005 (RESTATED NOTE 23)
REVENUES		
Taxation (Note 16)	$ 518,661	$ 503,594
Sales of services and regulatory fees (Note 17)	356,761	339,539
Government grants and transfers (Note 18)	109,236	99,040
Investment income	47,123	41,694
Land sales, contributions and other revenue	30,688	33,572
Total Revenues	1,062,469	1,017,439
EXPENSES (Note 19)		
Protection and community services	319,705	301,872
Public works	249,201	260,609
Utility operations	231,306	225,133
Finance and administration	59,677	60,302
Property and development	55,206	55,211
General government	45,964	34,636
Civic corporations	24,174	25,636
Total Expenses	985,233	963,399
Excess Revenues Over Expenses Before Other	77,236	54,040
OTHER		
Government grants and transfers related to capital (Note 18)	43,064	21,685
Excess Revenues Over Expenses	$ 120,300	$ 75,725

See accompanying notes and schedules to the consolidated financial statements

CONSOLIDATED STATEMENT OF ACCUMULATED SURPLUS

For the years ended December 31 (in thousands of dollars)

	2006	2005 (RESTATED NOTE 23)
ACCUMULATED SURPLUS, BEGINNING OF YEAR		
As previously reported	**$ 3,638,912**	$ 930,067
Prior period adjustments (Note 23)	**-**	2,633,120
As restated	**3,638,912**	3,563,187
Excess revenues over expenses	**120,300**	75,725
ACCUMULATED SURPLUS, END OF YEAR	**$ 3,759,212**	$ 3,638,912

See accompanying notes and schedules to the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31 (in thousands of dollars)

	2006	2005 (RESTATED NOTE 23)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess Revenues Over Expenses	$ 120,300	$ 75,725
Non-cash charges to operations		
Amortization	125,681	122,718
Other	6,364	5,781
Working capital from operations	252,345	204,224
Net change in working capital other than cash and cash equivalents	45,479	15,375
Cash provided by operating transactions	297,824	219,599
CAPITAL		
Acquisition of tangible capital assets	(263,066)	(199,313)
Proceeds on disposal of tangible capital assets	5,406	1,133
	(257,660)	(198,180)
FINANCING		
Increase in sinking fund investments	(23,758)	(25,558)
Debenture and serial debt retired	(21,871)	(87,292)
Sinking fund investments applied to debt redemption	-	66,424
Sinking fund debenture issued	60,000	-
Other	17,084	(1,708)
	31,455	(48,134)
INVESTING		
Reduction of investments	82,216	18,180
Increase (decrease) in cash and cash equivalents	153,835	(8,535)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	291,214	299,749
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 445,049	$ 291,214

See accompanying notes and schedules to the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the years ended December 31 (in thousands of dollars)

	2006	2005 (RESTATED NOTE 23)
EXCESS REVENUES OVER EXPENSES	$ 120,300	$ 75,725
Amortization of tangible capital assets	125,681	122,718
Proceeds on disposal of tangible capital assets	5,406	1,133
Change in inventories and prepaid expenses	(718)	5,339
(Gain) loss on sale of tangible capital assets	(2,672)	1,998
Acquisition of tangible capital assets	(263,066)	(199,313)
Other	5,816	800
(DECREASE) INCREASE IN NET FINANCIAL ASSETS	(9,253)	8,400
NET FINANCIAL ASSETS, BEGINNING OF YEAR	81,020	72,620
NET FINANCIAL ASSETS, END OF YEAR	$ 71,767	$ 81,020

See accompanying notes and schedules to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2006 (in thousands of dollars, except as noted)

1. Status of The City of Winnipeg

The City of Winnipeg ("the City") is a municipality that was created on January 1, 1972 pursuant to **The City of Winnipeg Act**, a statute of the Legislature of the Province of Manitoba ("the Province"). The City continued as a body corporate by virtue of the enactment by the Province of **The City of Winnipeg Charter** on January 1, 2003. The City provides municipal services such as police, fire, ambulance, public works, urban planning, parks and recreation, library and other general government operations. The City owns and operates a number of public utilities, has designated reserves and provides funding support for other entities involved in economic development, recreation, entertainment, convention, tourism and housing activities.

2. Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for governments established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The significant accounting policies are summarized as follows:

a) Basis of consolidation

The consolidated financial statements include the assets, liabilities, reserves, surpluses/deficits, revenues and expenses of those City funds and governmental functions or entities which have been determined to comprise a part of the aggregate City operations based upon control exercised by the City except for the City's government businesses which are accounted for on the modified equity basis of accounting. Interfund and intercorporate balances and transactions have been eliminated.

i) Consolidated entities

The organizations included in the consolidated financial statements are as follows:

CentreVenture Development Corporation	Winnipeg Arts Council Inc.
Destination Winnipeg Inc.	Winnipeg Enterprises Corporation
The Convention Centre Corporation	Winnipeg Public Library Board

ii) Government businesses

The investment in North Portage Development Corporation is reported as a government business partnership and Winnipeg Housing Rehabilitation Corporation as a government business enterprise. These businesses are accounted for using the modified equity method. Under this method, the government businesses' accounting principles are not adjusted to conform with those of the City and intercorporate transactions are not eliminated (Note 6).

These organizations report their activities based on a March 31 year-end.

iii) Funds held in trust

Trust funds administered by the City for the benefit of external parties of $0.2 million (2005 - $0.3 million) are not included in the consolidated financial statements.

iv) Other organizations

The employees' pension and group life insurance funds of the City are administered on behalf of the pension and group life insurance plan participants by the Board of Trustees of the Winnipeg Civic Employees' Benefits Program (Pension Fund) for the payment of pensions and life insurance benefits and accordingly are not included in the consolidated financial statements.

Separate financial statements for each of the above-noted entities and trust funds, are included in the 2006 Detailed Financial Statements Report, a companion document to the City's 2006 Financial Report.

b) Basis of accounting

The consolidated financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the creation of a legal obligation to pay.

c) School taxes

The City is required by **The Public Schools Act** to bill, collect and remit provincial education support levies in respect of residential and other properties on behalf of the Province, and school division special levies on behalf of school divisions. The City has no jurisdiction or control over the school divisions' operations or their mill rate increases. Therefore, the taxation, other revenues, expenses, assets and liabilities with respect to the operations of school boards are not reflected in these consolidated financial statements.

2. Significant Accounting Policies (continued)

d) Cash equivalents

Cash equivalents consist of Government of Canada treasury bills, guaranteed commercial paper and promissory notes, provincial government treasury bills and promissory notes, bankers' acceptances and bearer deposits and are recorded at cost, which approximates their quoted market value. These investments are redeemable on demand and have an effective average interest rate of 4.3% (2005 - 3.3%).

e) Land held for resale

Land held for resale is recorded at the lower of cost and net realizable value. Cost includes amounts for land acquisition and improvements to prepare the land for sale or servicing.

f) Investments

Bonds and debentures are carried at amortized cost. Discounts and premiums arising on the purchase of these investments are amortized over the remaining terms to maturity with annual amortization computed at amounts which, when combined with actual income received, result in a constant effective yield on the amortized book value.

Bond residues and coupons are carried at cost, plus accrued interest. Interest is accrued on the book value of the investments at a rate equivalent to the effective yield of each investment.

g) Assessment appeal costs

The City accrues a liability to reflect future payments related to the four year assessment cycle. This liability is recorded net of certain assessments that will be deferred and amortized over the cycle.

h) Solid waste landfills

The estimated costs to close and maintain solid waste landfill sites are based on estimated future expenses in current dollars, adjusted for estimated inflation, and are charged to expense as the landfill sites' capacity is used.

i) Environmental provisions

The City provides for the cost of compliance with environmental legislation when conditions are identified which indicate non-compliance with environmental legislation and costs can be reasonably determined. The estimated amounts of future restoration costs are reviewed regularly, based on available information and governing legislation.

j) Deferred revenue

Grants, contributions and other amounts are received from third parties pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs, in the completion of specific work, or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period when the related expenses are incurred, services performed, or the tangible capital assets are acquired.

k) Employee benefit plans

The costs of pensions and other retirement benefits are actuarially determined using the projected benefit method prorated on services and management's best estimate of retirement ages of employees, salary escalation and plan investment performance. Actuarial gains and losses are amortized on a straight-line basis over the average remaining service period. The liabilities are discounted using current interest rates on long-term bonds.

l) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the Change in Net Financial Assets for the year.

2. Significant Accounting Policies (continued)

i) Tangible capital assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Land improvements	15 years
Buildings	10 to 50 years
Transit buses	18 years
Machinery and equipment	10 years
Vehicles	5 to 10 years
Computer hardware and software	5 to 10 years
Water and waste plants and networks	
Underground networks	50 to 100 years
Sewage treatment plants and lift stations	50 to 75 years
Water pumping stations and reservoirs	50 to 75 years
Flood stations and other infrastructure	50 to 75 years
Transportation	
Roads	10 to 50 years
Bridges and structures	25 to 75 years
Leased assets	5 to 40 years

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

iii) Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

iv) Inventories

Inventories held for consumption are recorded at the lower of cost and replacement cost.

m) Revenue recognition

Government grants and transfers are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

n) Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions on such areas as employee benefits, assessment appeals and environmental provisions. These estimates and assumptions are based on the City's best information and judgment and may differ significantly from actual results.

3. Cash and Cash Equivalents

	2006	2005 (RESTATED NOTE 23)
Cash	$ 2,347	$ 13,328
Cash equivalents	442,702	277,886
	$ 445,049	$ 291,214

Cash and cash equivalents are net of $113.2 million (2005 - $137.6 million), which have been received from various entities including the Board of Trustees of the Winnipeg Civic Employees' Benefits Program. The funds are invested on a pooled basis to obtain maximum investment returns.

4. Accounts Receivable

	2006	2005 (RESTATED NOTE 23)
Property, payments-in-lieu and business taxes receivable	$ 41,350	$ 37,698
Allowance for property, payments-in-lieu and business tax arrears	(6,326)	(6,364)
	35,024	31,334
Trade accounts and other receivables	74,150	70,496
Province of Manitoba	27,229	27,185
Government of Canada	9,586	10,957
Allowance for doubtful accounts	(4,785)	(3,272)
	106,180	105,366
	$ 141,204	$ 136,700

5. Investments

	2006	2005 (RESTATED NOTE 23)
Marketable securities		
Government of Canada bonds, bond residues and coupons	$ 12,100	$ 44,154
Provincial bonds and coupons	8,466	49,754
Municipal bonds	1,457	-
	22,023	93,908
Manitoba Hydro long-term receivable	243,751	253,539
Other investments	914	742
	$ 266,688	$ 348,189

The aggregate market value of marketable securities at December 31, 2006 is $23.8 million (2005 - $96.8 million).

On February 27, 2002, City Council approved Manitoba Hydro's proposal to purchase Winnipeg Hydro. The terms of the proposal included annual payments to the City of $25 million per annum commencing in 2002 and for the next four years thereafter; $20 million per annum for years six-nine; and $16 million for years ten in perpetuity. The Manitoba Hydro investment represents the sum of the discounted future cash flows of the above annual payments to the City discounted at the City's 2002 average long-term borrowing rate of 6%.

6. Investment in Government Businesses

a) North Portage Development Corporation

North Portage Development Corporation ("NPDC") is a government partnership that is owned equally by the Government of Canada, the Province of Manitoba and The City of Winnipeg. The mission of the Corporation is to act as a catalyst, encouraging activities for people in the downtown through public and private partnerships and to work to ensure financial self-sufficiency.

The condensed supplementary financial information of NPDC is as follows:

	2006	2005
Financial position		
Capital assets	$ 88,947	$ 87,720
Current and other assets	3,747	4,451
	$ 92,694	$ 92,171
Deferred contributions	$ 26,463	$ 26,504
Current and other liabilities	7,005	5,932
	33,468	32,436
Shareholders' equity	59,226	59,735
	$ 92,694	$ 92,171
Results of operations		
Revenues	$ 9,008	$ 8,954
Expenses	8,040	8,238
	968	716
Depreciation and amortization	(1,477)	(1,397)
Net loss for the year	$ (509)	$ (681)

b) Winnipeg Housing Rehabilitation Corporation

Winnipeg Housing Rehabilitation Corporation ("WHRC") is a non-profit developer and manager of affordable housing in Winnipeg. WHRC was founded by The City of Winnipeg. Pursuant to operating agreements, WHRC receives subsidies from Canada Mortgage and Housing Corporation and Manitoba Housing and Renewal Corporation.

The condensed supplementary financial information of WHRC is as follows:

	2006	2005
Financial position		
Capital assets	$ 31,431	$ 32,118
Current and other assets	4,205	4,392
	$ 35,636	$ 36,510
Long-term debt	$ 30,945	$ 31,765
Current and other liabilities	2,337	2,539
	33,282	34,304
Replacement Reserves and net assets	2,354	2,206
	$ 35,636	$ 36,510
Results of operations		
Revenues	$ 6,858	$ 6,783
Expenditures	6,902	6,686
(Deficiency) Excess of revenues over expenditures for the year	(44)	97
Change to Replacement Reserves during the year	192	111
	$ 148	$ 208

6. Investment in Government Businesses (continued)

During the year, the City paid WHRC an operating grant of $200 thousand (2005 - $200 thousand). In addition, the City has guaranteed WHRC's operating line of credit to a value of $2.0 million (2005 - $2.0 million).

Summary of investment in government businesses

	2006	2005 (Restated Note 23)
North Portage Development Corporation (1/3 share)	$ 19,742	$ 19,912
Winnipeg Housing Rehabilitation Corporation	2,354	2,206
	$ 22,096	$ 22,118

Summary of results of operations

	2006	2005 (Restated Note 23)
North Portage Development Corporation (1/3 share)	$ (170)	$ (227)
Winnipeg Housing Rehabilitation Corporation	148	208
	$ (22)	$ (19)

The results of operations are included in the consolidated statement of operations as land sales, contributions and other revenue.

7. Accounts Payable and Accrued Liabilities

	2006	2005 (Restated Note 23)
Accrued liabilities	$ 83,741	$ 73,827
Trade accounts payable	61,754	53,350
Accrued interest payable	12,645	11,499
	$ 158,140	$ 138,676

8. Deferred Revenue

	2006	2005 (Restated Note 23)
Federal public transit grant	$ 13,658	$ -
Federal gas tax grant	4,649	-
Other	11,332	6,512
	$ 29,639	$ 6,512

9. Debt

Sinking fund debentures outstanding

Term	Maturity Date	Rate of Interest	Series	By-Law No.	Amount of Debt 2006	Amount of Debt 2005 (Restated Note 23)
1999-2009	Feb. 2	5.350	VV	7368/99	$ 50,000	$ 50,000
1989-2009	Dec. 14	10.000	VH	5286/89	85,500	85,500
1993-2013	Feb. 11	9.375	VN	6090/93	90,000	90,000
1994-2014	Jan. 20	8.000	VQ	6300/94	85,000	85,000
1995-2015	May 12	9.125	VR	6620/95	88,000	88,000
1997-2017	Nov. 17	6.250	VU	7000/97	30,000	30,000
2006-2036	July 17	5.200	VZ	183/2004 and 72/2006	60,000	-
					488,500	428,500
Equity in Sinking Fund					(222,723)	(198,965)
Net sinking fund debentures outstanding					265,777	229,535

9. Debt (continued)

Other debt outstanding

	2006	2005 (Restated Note 23)
Serial and installment debt issued by the City with varying maturities up to 2014 and a weighted average interest rate of 4.83% (2005 - 4.82%)	**130,855**	152,726
Bank loans incurred primarily by Fleet Management - Special Operating Agency and Winnipeg Enterprises Corporation with varying maturities up to 2018 and a weighted average interest rate of 5.33% (2005 - 5.99%)	**28,497**	8,821
Capital lease obligations (Note 9c)	**22,478**	23,620
	$ 447,607	$ 414,702

Debt segregated by fund/organization:

	2006	2005 (Restated Note 23)
General Capital Fund	**$ 272,656**	$ 305,588
Waterworks System	**82,890**	27,640
Sewage Disposal System	**51,510**	58,035
Solid Waste Disposal	**976**	1,248
Special operating agencies	**20,785**	353
Transit System	**15,286**	17,183
Other	**3,504**	4,655
	$ 447,607	$ 414,702

Debt to be retired over the next five years:

	2007	2008	2009	2010	2011	2012+
Sinking fund debentures	$ -	$ -	$ 135,500	$ -	$ -	$ 353,000
Other debt	40,250	17,337	18,307	19,159	19,357	67,420
	$ 40,250	$ 17,337	$ 153,807	$ 19,159	$ 19,357	$ 420,420

a) Sinking fund assets have a market value of $234.3 million (2005 - $216.7 million). Sinking fund assets are mainly comprised of government and government-guaranteed bonds and debentures, which include City of Winnipeg debentures with a carrying value of $27.8 million (2005 - $17.4 million) and a market value of $29.0 million (2005 - $18.9 million).

b) The **City of Winnipeg Charter** requires the City to make annual payments to The Sinking Fund on debt outstanding as at December 31, 2002. Sinking fund arrangements after December 31, 2002 are managed by the City. The City is currently paying three percent or greater to The Sinking Fund on its outstanding sinking fund debentures. These annual payments are invested for the retirement of the debenture issues on their maturity dates.

Sinking fund debenture issues provide for full sinking fund at maturity except for the following debenture which, as a result of the levies being provided and the terms of the issue, will have a sinking fund deficiency requiring the issue to be refinanced at maturity.

	Year of Maturity	Debenture By-Law	Issued Amount	Maturity Shortfall
	2009	7368/99	$ 50,000	$ 30,981

9. Debt (continued)

c) Future minimum lease payments under the capital leases together with the balance of the obligation due under the capital leases are as follows:

	Capital Leases
2007	$ 3,707
2008	3,275
2009	3,378
2010	3,378
2011	3,378
Thereafter	26,922
Total future minimum lease payments	44,038
Amount representing interest at a weighted average rate of 9.40%	(21,560)
Capital lease liability	$ 22,478

d) Interest on debt recorded in the Statement of Operations in 2006 is $45.7 million (2005 - $50.3 million).

e) Cash paid for interest during the year is $44.5 million (2005 - $52.7 million).

10. Other Liabilities

	2006	2005 (RESTATED NOTE 23)
Other liabilities	$ 15,789	$ 22,352
Developer deposits	6,052	5,259
	21,841	27,611
Environmental liabilities	17,000	14,000
	$ 38,841	$ 41,611

In 2006, the City has accrued an overall liability for environmental matters in the amount of $17.0 million (2005 - $14.0 million) which represents management's best estimate of this liability. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Included in environmental liabilities is $14.4 million (2005 - $13.3 million) of the estimated total landfill closure and post closure care expenses. The estimated liability for these expenses is recognized as the landfill site's capacity is used. Estimated total expenses represent the sum of the discounted future cash flows for closure and post closure care activities discounted at the City's average long-term borrowing rate of 5.3% (2005 - 5.3%).

Landfill closure and post closure care requirements have been defined in accordance with the **Environmental Act** and include final covering and landscaping of the landfill, pumping of ground, methane gas and leachate management, and ongoing environmental monitoring, site inspection and maintenance. The reported liability is based on estimates and assumptions with respect to events extending over a 100 year period using the best information available to management. Future events may result in significant changes to the estimated total expenses, capacity used or total capacity and the estimated liability, and would be recognized prospectively, as a change in estimate, when applicable.

The estimated capacity of the City's one remaining landfill, the Brady Landfill Site, is 96% of its total capacity and its remaining life is approximately 100 years, after which perpetual post closure maintenance is required.

The Brady Landfill Site Rehabilitation Reserve was established for the purpose of providing funding for the future development of the Brady Landfill Site. The reserve is financed through a transfer from the Solid Waste Disposal Fund and is based upon residential and commercial tonnes. As at December 31, 2006, the reserve had a balance of $2.4 million (2005 - $2.1 million).

11. Retirement Allowance, Compensated Absences and Other

	2006	2005
Retirement allowance - accrued obligation	$ 83,409	$ 80,580
Unamortized net actuarial loss	(9,011)	(9,344)
Retirement allowance - accrued liability	74,398	71,236
Compensated absences	48,572	47,808
Other	19,127	10,563
	$ 142,097	$ 129,607

Under the retirement allowance plan, qualifying employees become entitled to a cash payment upon retirement, death or termination of service under certain conditions (not resignation). In addition, adjustments arising from plan amendment, changes in assumptions, and experience gains and losses are amortized on a straight-line basis over 11.1 years, which represents the expected average remaining service life of the employee group. Amortization is calculated beginning in the year following the year of occurrence of the actuarial gains or losses.

The City measures its accrued retirement allowance obligation as at December 31 of each year. The most recent actuarial valuation report was prepared on December 31, 2006.

Information about the City's retirement allowance benefit plan is as follows:

	2006	2005
Retirement allowance - accrued liability		
Balance, beginning of year	$ 71,236	$ 69,783
Current service cost	4,171	3,649
Interest cost	3,594	3,877
Amortization of net actuarial loss	975	574
Benefit payments	(5,578)	(6,647)
Balance, end of year	$ 74,398	$ 71,236

Retirement allowance expense consists of the following:

	2006	2005
Current service cost	$ 4,171	$ 3,649
Interest cost	3,594	3,877
Amortization of net actuarial loss	975	574
	$ 8,740	$ 8,100

The significant actuarial assumptions adopted in measuring the retirement allowance obligation for the year ended December 31 are as follows:

	2006	2005
Valuation interest rate	4.50%	4.50%
General increases in pay	3.00%	3.00%

12. Pension Costs and Obligations

a) Winnipeg Civic Employees' Benefits Program

The Program is a multi-employer contributory defined benefit program, providing pension and disability benefits to all City of Winnipeg employees, other than police officers, and to employees of certain other participating employers. Members are currently required to make contributions of 6.5% of Canada Pension Plan earnings and 7.5% of pensionable earnings in excess of Canada Pension Plan earnings. The City and participating employers are required to make matching contributions. In the event of unfavourable financial experience, members and employers contributions can be increased, on an equal basis, to a rate not exceeding 8% of pensionable earnings.

An actuarial valuation of the Program was prepared on December 31, 2005, which indicated an excess of actuarial value of Program assets over actuarial liabilities of $470.5 million. The Pension Trust Agreement specifies how the excess of actuarial surpluses can be used but does not attribute the excess of actuarial surpluses to individual employers. However, a portion of the excess of actuarial surpluses is allocated to a City Account that the City and other participating employers may use to finance reductions in their contributions.

The balance of the City Account at December 31, 2006 was $129.6 million (2005 - $125.2 million). Total contributions by the City to the Program in 2006 were $13.1 million (2005 - $11.9 million), which were expensed as incurred.

b) Winnipeg Police Pension Plan

Effective January 1, 2003, the City entered into an agreement with its two Police Associations concerning the sharing of surpluses and risks under the Winnipeg Police Pension Plan. Under the terms of the agreement, the existing Regular Account (which financed the Plan's defined pension benefits other than cost-of-living adjustments) and the Supplementary Account (which financed cost-of-living adjustments to pensioners) were merged into a single account and the actuarial surplus was used to fully fund future cost-of-living adjustments on all accrued pension and deferred pension benefits at the rate of 75% of the inflation rate, as well as establish a contribution stabilization reserve to maintain the City's contribution rate at 8% of pensionable earnings, which is the same rate as that at which police employees contribute to the Plan. Future actuarial surpluses, over and above those required to fully fund future cost-of-living adjustments to pensions at 75% of the inflation rate and the contribution stabilization reserve sufficient to maintain the City's contribution rate at 8% of pensionable earnings, will be shared equally between the City and the Plan members. The City will remain responsible for ensuring the financial solvency of the Plan with respect to benefits other than cost-of-living adjustments to pensions.

An actuarial valuation of the Plan was prepared on December 31, 2005 and the results were extrapolated to December 31, 2006. The principal long-term assumptions on which the valuation was based were: discount rate of 6.25% per year; inflation rate of 2.25% per year; and general pay increases of 3.75% per year. The accrued pension obligation was valued using the projected benefit method pro-rated on services. Based on this valuation and extrapolation, the funded status of the Plan is as follows:

	2006	2005
Pension fund assets, at actuarial value	**$ 844,838**	$ 786,585
Accrued pension obligations	**$ 762,922**	$ 720,810
Contribution stabilization reserve	**61,225**	55,361
	$ 824,147	$ 776,171

The market value of the pension fund assets as at December 31, 2006 was $916.2 million (2005 - $826.9 million). Total contributions made by the City to the Plan in 2006 were $7.7 million (2005 - $6.8 million). Total employee contributions to the Plan in 2006 were $7.7 million (2005 - $6.8 million). Benefits paid from the Plan in 2006 were $30.3 million (2005 - $28.8 million).

The expected rate of return on Plan assets in 2006 was 6.25% (2005 - 6.25%). The actual rate of return, net of investment expenses, on Plan assets in 2006 was 12.7% (2005 - 12.1%).

c) Councillors' Pension Plan

i) Pension Plan Established Under By-law 3553/83

On November 2, 1992, the pension plan provided to members of Council was terminated, thereby not allowing new members to be accepted to the plan and current members being entitled to receive retirement benefits once they become eligible. In 2006, the City paid out $0.3 million (2005 - $0.3 million).

ii) Pension Plan Established Under By-law 7869/01

On November 22, 2000, City Council adopted the policy that effective January 1, 2001, a Council Pension Plan be created for all members of Council for The City of Winnipeg which is consistent with the Civic Employees' Pension Plan.

12. Pension Costs and Obligations (continued)

d) Group Life Insurance Plan

Employees of the City who are members of the Civic Employees' Pension Plan and the Winnipeg Police Pension Plan must become members of the Civic Employees' Group Life Insurance Plan and the Police Employees' Group Life Insurance Plan respectively. These plans provide life insurance coverage for members while employed and coverage can be continued into retirement at the employees' option. Plan members and the City share the cost of basic life insurance coverage. An actuarial valuation indicated that this post-retirement liability is fully funded.

13. Tangible Capital Assets

	Net Book Value	
	2006	2005
		(RESTATED NOTE 23)
General		
Land	$ 171,400	$ 176,158
Buildings	223,801	221,112
Vehicles	125,225	126,254
Computer	44,625	46,557
Other	50,142	40,880
Infrastructure		
Plants and facilities	228,320	230,769
Roads	723,638	693,507
Underground and other networks	1,633,958	1,630,473
Bridges and other structures	315,176	305,621
	3,516,285	3,471,331
Assets under construction	153,460	69,579
	$ 3,669,745	$ 3,540,910

For additional information, see the Consolidated Schedule of Tangible Capital Assets (Schedule 1).

During the year there were no write-downs of assets (2005 - $nil). Interest capitalized during 2006 was $1,326 thousand (2005 - $988 thousand). In addition, roads and underground networks contributed to the City totalled $14,315 thousand in 2006 (2005 - $17,080 thousand) and were capitalized at their fair value at the time of receipt.

14. Accumulated Surplus

Accumulated surplus consists of individual fund surpluses/(deficits) and reserves as follows:

	2006	2005 (RESTATED NOTE 23)
Surpluses		
Invested in tangible capital assets	**$ 3,181,870**	$ 3,038,586
Unamortized gain on Winnipeg Hydro sale	**243,751**	253,539
Waterworks System	**104,272**	70,444
Sewage Disposal System	**43,856**	47,688
Fleet Management - Special Operating Agency	**20,390**	28,027
North Portage Development Corporation	**19,742**	19,912
CentreVenture Development Corporation	**10,087**	10,981
Solid Waste Disposal	**7,342**	7,293
General Revenue Enterprises Fund	**4,988**	5,028
Other	**4,706**	2,958
Unfunded		
Environmental liabilities	**(16,280)**	(14,000)
Retirement allowance, compensated absences and other	**(135,779)**	(124,345)
	3,488,945	3,346,111
Reserves		
Capital Reserves		
Environmental Projects Reserve	**46,942**	52,336
Sewer System Rehabilitation Reserve	**25,619**	-
Water Treatment Reserve	**25,217**	73,680
Transit Bus Replacement Reserve	**7,068**	359
Combined Sewer Renewal Reserve	**-**	23,488
Other	**9,513**	9,909
	114,359	159,772
Special Purpose Reserves		
General Purpose Reserve	**13,122**	13,244
Perpetual Maintenance Fund - Brookside Cemetery	**10,485**	9,891
Heritage Investment Reserve	**9,259**	8,744
Land Operating Reserve	**9,038**	5,975
Insurance Reserve	**7,952**	7,340
Workers Compensation Reserve	**7,705**	6,887
Other	**17,118**	16,944
	74,679	69,025
Stabilization Reserves		
Fiscal Stabilization Reserve	**49,259**	35,350
Mill Rate Stabilization Reserve	**31,970**	28,654
	81,229	64,004
	270,267	292,801
	$ 3,759,212	$ 3,638,912

15. Commitments and Contingencies

The significant commitments and contingencies that existed at December 31, 2006 are as follows:

a) The City had entered into a number of lease agreements mainly for the lease of accommodations for civic offices and office equipment. Future minimum lease payments are as follows:

	Operating Leases
2007	$ 4,910
2008	4,117
2009	2,536
2010	2,142
2011	1,754
Thereafter	3,464
	$ 18,923

b) The City is a defendant in two significant lawsuits as at December 31, 2006. At this time the final liability is not determinable. Other contingent liabilities consisting of routine claims for street and sidewalk accidents, property damage, etc. will be accounted for as an expense in the period which the settlement occurs.

c) The City has also unconditionally guaranteed the payment of principal and interest on capital improvement loans for several organizations. The outstanding balance on these loans as at December 31, 2006 is $6.3 million (2005 - $7.3 million).

16. Taxation

	2006	2005 (RESTATED NOTE 23)
Municipal and school property taxes	$ 804,232	$ 784,395
Payments-in-lieu of property (municipal and school) and business taxes	39,209	42,283
	843,441	826,678
Payments to Province and school divisions	(437,317)	(435,205)
Net property taxes and payments-in-lieu of property taxes available for municipal purposes	406,124	391,473
Business tax and license-in-lieu of business tax	61,029	61,243
Local improvement and frontage levies	28,439	28,042
Electricity and gas sales taxes	16,941	16,826
Amusement tax and mobile home license	6,128	6,010
	$ 518,661	$ 503,594

The property tax roll includes school taxes of $415.4 million (2005 - $411.0 million) assessed and levied on behalf of the Province of Manitoba and school divisions. Payments-in-lieu of school taxes assessed in 2006 totalled $21.9 million (2005 - $24.2 million) and are treated the same as school taxes. School taxes and payments-in-lieu of school taxes are remitted to the Province and school divisions based upon a formula and schedule set by the Province of Manitoba. If property taxes are reduced due to an assessment reduction the City is required by legislation to fund the repayment of both the municipal and school taxes with applicable interest.

17. Sales of Services and Regulatory Fees

	2006	2005 (RESTATED NOTE 23)
Water sales and sewage services	$ 169,265	$ 156,085
Other sales of goods and services	88,472	90,237
Transit fares	57,319	55,358
Regulatory fees	41,705	37,859
	$ 356,761	$ 339,539

18. Government Grants and Transfers

	2006	2005 (Restated Note 23)
Operating		
Province of Manitoba		
Building Manitoba Fund	$ 49,368	$ 49,368
Ambulance, libraries and other	31,136	25,329
Transit	22,895	19,355
Unconditional	19,887	19,488
Support	9,483	9,061
Support for Provincial programs	(23,650)	(23,650)
	109,119	98,951
Government of Canada		
Dutch elm disease program and other	117	89
	109,236	99,040
Capital		
Province of Manitoba	14,581	14,972
Government of Canada		
Federal gas tax revenue	18,659	-
Other capital funding	9,154	6,713
Public transit	670	-
	28,483	6,713
	43,064	21,685
	$ 152,300	$ 120,725

19. Expenses by Object

	2006	2005 (Restated Note 23)
Salaries and benefits	$ 530,881	$ 510,928
Goods and services	271,530	270,707
Amortization	125,681	122,718
Interest	45,665	50,283
Grants and other expenses	11,476	8,763
	$ 985,233	$ 963,399

20. Property and Liability Insurance

The City purchases comprehensive insurance coverage for property and liability with a self-insured retention level of $250 thousand per claim for most of the policies. The City has established an Insurance Reserve Fund that enables the City to carry a large self-insured retention level which mitigates the effect of poor claims experience in any given year. The balance of the reserve as at December 31, 2006 is $8.0 million (2005 - $7.3 million).

21. Segmented Information

The City of Winnipeg is a diversified municipal government institution that provides a wide range of services to its citizens, including police, fire, ambulance, public transit, and water. For management reporting purposes the Government's operations and activities are organized and reported by Fund. Funds were created for the purpose of recording specific activities to attain certain objectives in accordance with special regulations, restrictions or limitations.

City services are provided by departments and their activities are reported in these funds. Certain departments that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

21. Segmented Information (continued)

Protection - Police Services and Fire Paramedic Service

The mandate of the Police Services department is to ensure the safety of the lives and property of citizens; preserve peace and good order; prevent crimes from occurring; detect offenders; and enforce the law. The Fire Paramedic Service department is responsible to provide fire suppression service; fire prevention programs; training and education related to prevention, detection or extinguishment of fires. It is also responsible for pre-hospital emergency paramedical care and the transport of sick and injured; handling hazardous materials incidents; for the mitigation of calamitous incidents; and for the evacuation of people when in charge at an incident.

Community Services

The Community Services department provides public services that contribute to neighbourhood development and sustainability through the provision of recreation and leisure services such as fitness and aquatic programs. It provides public services that contribute to healthy communities through partnerships, promotion, prevention, protection and enforcement such as insect control and the regulation of food service establishments. The department also contributes towards the information needs of the City's citizens through the provision of library services.

Planning, Property and Development

The Planning, Property and Development department provides a diverse bundle of services. It manages urban development for business interests, environmental concerns, heritage matters, local neighourhoods and the downtown through City planning, community development, parks and riverbank planning. It ensures an acceptable quality of building construction and maintenance of properties through enforcement of construction codes, building standards and by-law for the protection of occupants. It facilitates economic development by providing services for the approval of all land development plans, the application and enforcement of zoning by-laws, the processing of building permit applications and the provision of geomatics services, as well as providing cemetery services to citizens.

Public Works, Transit, and Water and Waste

The Public Works department is responsible for the delivery of municipal public works services related to the planning, development and maintenance of roadway systems, the maintenance of parks and open space, and street lighting. The Transit department is responsible for providing local public transportation service. The Water and Waste department consists of three distinct utilities - water, wastewater and solid waste disposal. The department provides drinking water to citizens of Winnipeg, collecting and treating wastewater, and providing collection disposal and waste minimization programs and facilities for solid waste. Their land drainage and garbage collection operations are reported in the General Revenue Fund and are included in the Public Works and Water segment.

Certain allocation methodologies are employed in the preparation of segmented financial information. The General Revenue Fund reports on municipal services that are funded primarily by taxation such as property and business tax revenues. Taxation and payments-in-lieu of taxes are apportioned to General Revenue Fund services based on the Fund's net surplus. Certain government grants, transfer from other funds, and other revenues have been apportioned based on a percentage of budgeted expenses.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 2. For additional information see the Consolidated Schedule of Segment Disclosure - Service (Schedule 2).

22. Glacial Sand and Gravel - Special Operating Agency

On September 27, 2006, City Council approved the sale of Glacial Sand and Gravel - Special Operating Agency's Pine Ridge facilities, equipment, and reserve assets for $11.0 million. The closing date of the sale was January 3, 2007.

23. Prior Period Adjustments

The City has restated its financial statements to comply with the provisions of Section 3150 of the Public Sector Accounting Board Handbook which requires governments to record and amortize their tangible capital assets on their financial statements. In addition, revenue from contributed assets and government grants and transfers relating to capital acquisitions have been included in income. Revisions have also been made to record the City's investment in government businesses. These adjustments are as follows:

Adjustments to opening 2005 accumulated surplus		
Net book value of tangible capital assets recorded	$	2,612,400
Investment in government businesses and wholly-owned corporations		20,720
	$	2,633,120
Adjustments to 2005 excess revenues over expenses		
Excess revenues over expenses, as previously reported	$	44,658
Add:		
Assets capitalized but previously expensed		39,050
Revenue from contributed tangible capital assets		17,080
Capital grants received and recorded as revenue		21,685
Less:		
Increase in amortization expense		(44,540)
Increase in loss on disposal of tangible capital assets		(1,916)
Loss from government business enterprises, government business partnerships and wholly-owned corporations		(292)
Excess revenues over expenses, as restated	$	75,725
Adjustments to 2005 tangible capital assets		
Net book value of tangible capital assets, as previously reported	$	942,408
Add:		
Net book value of tangible capital assets resulting from the adjustment of opening 2005 accumulated surplus		2,612,400
Assets capitalized but previously expensed		39,050
Revenue from contributed tangible capital assets		17,080
Capital grants received and recorded as revenue		21,685
Less:		
Increase in accumulated amortization		(44,540)
Decrease from government businesses		(32,925)
Adjustment of land held for resale and other		(12,332)
Increase in loss on disposal of tangible capital assets		(1,916)
Net book value of tangible capital assets, as restated	$	3,540,910

23. Prior Period Adjustments (continued)

Adjustment to 2005 investment in government businesses		
Investment in government businesses, as previously reported	$	
Increase in the amount recorded relating to government business enterprises and government business partnerships		22,118
Investment in government businesses, as restated	$	22,118
Adjustment to 2005 debt		
Debt, as previously reported	$	447,857
Reduction in the amount recorded relating to government business enterprises		(33,155)
Debt, as restated	$	414,702

Certain comparative figures have been reclassified to conform with the current year's presentation.

CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS

SCHEDULE 1

As at December 31 (in thousands of dollars)

	General					Infrastructure					Totals	
	Land	Buildings	Vehicles	Computer	Other	Plants and Facilities	Roads	Underground and Other Networks	Bridges and Other Structures	Assets Under Construction	2006	2005
Cost												
Balance, beginning of year	$ 176,158	$ 407,217	$ 223,123	$ 90,574	$ 78,534	$ 384,897	$ 1,422,470	$ 2,351,683	$ 462,019	$ 69,579	$ 5,666,254	$ 5,498,184
Add:												
Additions during the year	1,488	14,117	15,767	6,816	14,263	4,736	67,169	35,755	19,074	83,881	263,066	199,313
Less:												
Disposals during the year	396	-	3,177	342	-	-	21,455	1,610	-	-	26,980	30,443
Other	(5,850)	-	-	-	34	-	-	-	-	-	(5,816)	(800)
Balance, end of year	171,400	421,334	235,713	97,048	92,831	389,633	1,468,184	2,385,828	481,093	153,460	5,896,524	5,666,254
Accumulated amortization												
Balance, beginning of year	-	186,105	96,869	44,017	37,654	154,128	728,963	721,210	156,398	-	2,125,344	2,029,938
Add:												
Amortization	-	11,428	15,174	8,748	5,035	7,185	37,038	31,554	9,519	-	125,681	122,718
Less:												
Accumulated amortization on disposals	-	-	1,555	342	-	-	21,455	894	-	-	24,246	27,312
Balance, end of year	-	197,533	110,488	52,423	42,689	161,313	744,546	751,870	165,917	-	2,226,779	2,125,344
Net Book Value of Tangible Capital Assets	$ 171,400	$ 223,801	$ 125,225	$ 44,625	$ 50,142	$ 228,320	$ 723,638	$ 1,633,958	$ 315,176	$ 153,460	$ 3,669,745	$ 3,540,910

CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE - SERVICE

SCHEDULE 2

For the year ended December 31, 2006 (in thousands of dollars)

	General Revenue Fund									
	Protection	Community Services	Planning	Public Works and Water	Finance and Administration	Transit System Fund	Water and Waste Funds	Other Funds and Corporations	Eliminations	Consolidated
REVENUES										
Taxation	$ 179,782	$ 55,820	$ 11,696	$ 148,039	$ 96,128	$ -	$ -	$ 42,832	$ (15,636)	$ 518,661
Sales of services and regulatory fees	35,770	15,377	13,110	3,491	9,529	59,355	186,997	67,022	(33,890)	356,761
Government grants and transfers	32,642	11,291	3,246	19,023	14,760	24,292	4,573	85,547	(43,074)	152,300
Transfer from other funds	12,767	2,404	5,637	21,606	3,450	35,197	87,738	214,080	(382,879)	-
Other	9,351	3,189	1,484	7,149	7,875	507	13,500	74,968	(40,212)	77,811
	270,312	88,081	35,173	199,308	131,742	119,351	292,808	484,449	(515,691)	1,105,533
EXPENSES										
Salaries and benefits	221,526	42,773	18,947	53,893	38,015	70,947	43,493	34,181	7,106	530,881
Goods and services	32,547	11,709	3,841	77,731	13,312	34,326	58,185	72,443	(32,564)	271,530
Interest	1,782	1,269	2,035	40,904	6,039	2,755	14,214	57,527	(80,860)	45,665
Transfer to other funds	8,627	25,309	6,396	5,599	43,503	7,081	49,964	159,822	(306,301)	-
Other	5,830	7,021	3,954	21,181	30,873	8,551	20,594	108,862	(69,709)	137,157
	270,312	88,081	35,173	199,308	131,742	123,660	186,450	432,835	(482,328)	985,233
NET SURPLUS (DEFICIT)	$ -	$ -	$ -	$ -	$ -	$ (4,309)	$ 106,358	$ 51,614	$ (33,363)	$ 120,300

SCHEDULE 2 (CONTINUED)

For the year ended December 31, 2005 (in thousands of dollars)

	General Revenue Fund									
	Protection	Community Services	Planning	Public Works and Water	Finance and Administration	Transit System Fund	Water and Waste Funds	Other Funds and Corporations	Eliminations	Consolidated
REVENUES										
Taxation	$ 169,121	$ 54,587	$ 12,184	$ 160,760	$ 94,020	$ -	$ -	$ 28,278	$ (15,356)	$ 503,594
Sales of services and regulatory fees	30,735	14,827	12,114	3,084	8,922	57,939	175,630	71,523	(35,235)	339,539
Government grants and transfers	29,669	10,549	3,448	18,177	12,406	24,410	786	65,209	(43,929)	120,725
Transfer from other funds	14,295	3,027	6,020	19,777	5,314	40,279	46,308	186,835	(321,855)	-
Other	8,941	3,129	1,614	7,118	7,691	594	11,125	72,897	(37,843)	75,266
	252,761	86,119	35,380	208,916	128,353	123,222	233,849	424,742	(454,218)	1,039,124
EXPENSES										
Salaries and benefits	207,885	42,091	18,443	56,580	33,881	69,193	40,955	36,295	5,605	510,928
Goods and services	31,800	13,490	3,401	79,952	13,292	34,189	58,103	65,306	(28,826)	270,707
Interest	2,062	1,213	2,559	40,510	5,163	2,989	14,728	58,043	(76,984)	50,283
Transfer to other funds	6,568	22,398	6,665	4,711	43,101	5,429	51,896	116,219	(256,987)	-
Other	4,446	6,927	4,312	27,163	32,916	8,627	20,322	115,517	(88,749)	131,481
	252,761	86,119	35,380	208,916	128,353	120,427	186,004	391,380	(445,941)	963,399
NET SURPLUS (DEFICIT)	$ -	$ -	$ -	$ -	$ -	$ 2,795	$ 47,845	$ 33,362	$ (8,277)	$ 75,725

CONSOLIDATED FINANCIAL STATEMENTS FIVE-YEAR REVIEW

As at December 31 ("$" amounts in thousands of dollars, except as noted)
(Unaudited)

		2006	2005	2004	2003	2002
1. Population (as restated per Statistics Canada)		648,600	647,600	646,700	642,700	639,700
Unemployment rate (per Statistics Canada)						
- Winnipeg		4.6%	4.8%	5.5%	5.2%	5.3%
- National average		6.3%	6.8%	7.2%	7.6%	7.7%
2. Average total employees		8,836	8,749	8,788	8,385	8,333
3. Number of taxable properties		206,658	206,170	205,366	204,494	204,304
Payments-in-lieu						
Number of properties		922	874	853	940	894
4. Assessment (see notes)	- Residential	$ 22,800,354	18,460,471	18,277,925	18,069,819	17,803,696
	- Commercial and industrial	7,959,866	7,209,121	7,132,230	7,099,635	7,046,756
	- Farm and golf	162,390	102,742	101,769	104,099	106,062
		$ 30,922,610	25,772,334	25,511,924	25,273,553	24,956,514
Assessment per capita (in dollars)		$ 47,676	39,797	39,449	39,324	39,013
Commercial and industrial as a percentage of assessment		25.74%	27.97%	27.96%	28.09%	28.24%
5. Tax arrears		$ 41,350	37,698	40,436	42,761	47,978
6. Tax arrears-per capita (in dollars)		$ 63.75	58.21	62.53	66.53	75.00
7. Municipal mill rate		25.448	29.686	29.686	29.686	29.686
- Percentage change adjusted for portioning and reassessment		0.00%	0.00%	0.00%	0.00%	-2.00%
8. Winnipeg consumer price index (annual average)						
- 1992 base year 100		133.80	131.20	127.90	125.50	123.30
- Percentage increase		1.98%	2.58%	1.91%	1.78%	1.48%
9. Consolidated revenues (see notes)						
- Taxation		$ 518,661	503,594	491,698	489,996	484,220
- User charges		356,761	339,539	328,206	318,605	295,893
- Government grants and transfers		152,300	120,725	94,100	97,082	94,026
- Interest and other revenue		77,811	75,266	54,879	55,746	56,769
- Gain on sale of Hydro		-	-	-	-	227,476
		$ 1,105,533	1,039,124	968,883	961,429	1,158,384
10. Consolidated expenses by function (see notes)						
- Municipal operations		$ 729,753	712,630	681,533	662,902	640,692
- Public utilities		231,306	225,133	217,171	218,246	223,814
- Civic corporations		24,174	25,636	31,214	29,855	30,307
		$ 985,233	963,399	929,918	911,003	894,813
11. Growth in accumulated surplus (see notes)		$ 120,300	75,725	38,965	50,426	263,571

(Note: In 2002, the City conducted a general reassessment which moved from a 1996 level of value to a 1999 level of value.)

(Note: In 2006, the City conducted a general reassessment which moved from a 1999 level of value to a 2003 level of value.)

(Note: For 2002 - 2003, the revenues, expenses, accumulated surplus, and net financial assets (liabilities) figures have not been restated for compensated absences.)

(Note: For 2002 - 2004, the revenues, expenses, net financial assets (liabilities), accumulated surplus and acquisition of tangible capital assets figures have not been restated to reflect the change in accounting policy concerning tangible capital assets, revenues from contributed assets and government grants and transfers related to tangible capital assets acquisitions, and to record the City's investment in government businesses.)

CONSOLIDATED FINANCIAL STATEMENTS FIVE-YEAR REVIEW

		2006	2005	2004	2003	2002
12. Consolidated expenses by object (see notes)						
Salaries and benefits	$	**530,881**	510,928	496,048	465,442	433,185
Goods and services		**271,530**	270,707	285,594	290,573	283,703
Amortization		**125,681**	122,718	-	-	-
Interest		**45,665**	50,283	-	-	-
Grants and other expenses		**11,476**	8,763	19,234	21,451	34,069
Debt interest and repayment		-	-	129,042	133,537	143,856
	$	**985,233**	963,399	929,918	911,003	894,813
13. Payments to school authorities	$	**437,317**	435,205	439,062	425,053	414,140
14. Debt						
Tax-supported	$	**411,043**	429,287	486,790	489,974	576,659
Transit		**26,813**	27,520	35,092	33,606	38,007
City-owned utilities		**207,581**	151,700	175,050	177,429	204,833
Other		**24,893**	5,160	5,743	6,293	6,866
Total gross debt		**670,330**	613,667	702,675	707,302	826,365
Less: Sinking Fund		**222,723**	198,965	239,831	245,709	363,097
Total net long-term debt	$	**447,607**	414,702	462,844	461,593	463,268
Percentage of total assessment		**1.45%**	1.61%	1.81%	1.83%	1.86%
15. Acquisition of tangible capital assets						
Acquisitions (see notes)	$	**263,066**	199,313	143,286	164,384	157,511
16. Net financial assets (liabilities) (see notes)	$	**71,767**	81,020	72,620	(46,874)	(98,690)
17. Accumulated surplus (see notes)						
Surpluses						
Invested in tangible capital assets	$	**3,181,870**	3,038,586	335,267	305,951	274,317
Unamortized gain on Winnipeg Hydro sale		**243,751**	253,539	262,772	271,483	279,701
Other surpluses		**215,383**	192,331	145,050	137,575	104,712
Unfunded liabilities		**(152,059)**	(138,345)	(129,490)	(118,725)	(108,642)
		3,488,945	3,346,111	613,599	596,284	550,088
Reserves						
Capital		**114,359**	159,772	179,679	152,804	141,744
Stabilization		**81,229**	64,004	62,325	60,588	58,279
Special Purpose		**74,679**	69,025	72,224	82,364	91,743
Other		-	-	2,240	2,145	1,905
		270,267	292,801	316,468	297,901	293,671
	$	**3,759,212**	3,638,912	930,067	894,185	843,759
18. Area in square kilometers at the end of the year		**476**	476	476	476	476
19. Construction						
-Permits issued		**8,987**	8,931	8,977	8,344	8,719
-Value	$	**849,758**	656,350	674,619	649,071	427,028
Housing starts		**3,289**	2,177	2,335	2,208	1,451

KEY CITY CONTACTS

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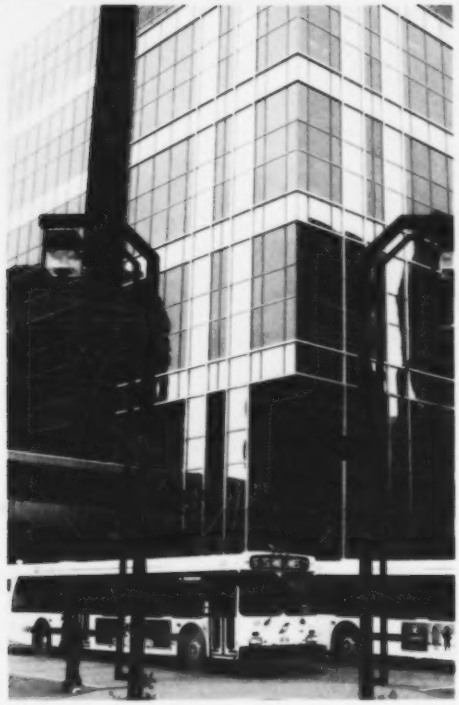

Above l-r: Winnipeg is home to a thriving local music scene. Photo: Destination Winnipeg Inc. / Merrit Rawsthorne: Esplanade Riel is Canada's only bridge with a restaurant and a view to the annual Dragon Boat races. Photo: Destination Winnipeg Inc. / Kevin Wolk. A sunset beyond the Winnipeg railyards Photo: Destination Winnipeg Inc. / Emily Prudhomme: The Forks Market. Photo: Travel Manitoba. SnowScreen is part of the National Screen Institutes Annual Canadian Film Festival in March. Photo: George Doukilas. Manitoba Theatre Center is Canada's oldest regional English language theatre. Photo: Manitoba Theatre Centre. Winnipeg is a city of trees and parks. Photo: City of Winnipeg. City Transit buses on Graham Avenue Mall. Photo: City of Winnipeg. Curling on the River - Winnipeg is known as the curling capital of the World. Photo: Travel Manitoba. A Leo Mol sculpture at Assiniboine Park. Photo: City of Winnipeg

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